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SMALL BUSINESS MANUFACTURING IN A GLOBAL MARKET

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

OCTOBER, 9, 2003

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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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SMALL BUSINESS MANUFACTURING IN A GLOBAL MARKET

THURSDAY, OCTOBER 9, 2003

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, D.C.

The Committee met, pursuant to notice, at 9:30 a.m., in the Council Chamber Room of the Lewiston City Hall, Lewiston, Maine, the Honorable Olympia J. Snowe, Chair of the Committee, presiding.

Present: Senator Snowe.

OPENING STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. The hearing will come to order. I want to welcome everybody, first and foremost, and thank all of you for being here today. I am sorry some of you have to stand in the room, but we've been advised that, due to fire code, we cannot have any more chairs in the room. There is an overflow room as well that monitors this by closed circuit TV. So, I appreciate it.

I know there is a lot of interest in this subject and, so, we will begin. And hopefully, we can accommodate as many witnesses. We have two panels here this morning and will proceed as we can.

I want to welcome Congressman Michaud, who is here for a short duration. I know he has a long history in representing the Second Congressional District on this issue and the impact of lost manufacturing jobs. I am also particularly aware of the Second Congressional District's concerns, having represented it myself for 16 years before being elected to the Senate. So I want to welcome you. And, because you are a Member of the Small Business Committee in the House of Representatives, this is a joint venture here today. I thank you. I want to welcome all of you to today's field hearing, "Small Business Manufacturing in a Global Market."

Let me begin by saying that this is my first field hearing as Chair of the Small Business Committee. I chose this subject because I believe it is having a serious effect, certainly on my State and, also, across the country. It is also a pleasure for me to be here in Lewiston-Auburn, where my hometown roots run so deep. Today, I couldn't help but think how appropriate it would be that my first field hearing would be in a place where it all started for me. I also thought that it was entirely fitting that a hearing, focusing on the importance and resurgence of manufacturing, be held in a place that was literally built by manufacturing and the hard-working people who made Lewiston-Auburn's legendary industrial base possible. Of course, it is also an area that is all too familiar with the tremendous losses experienced by the manufacturing sector. So it is altogether appropriate that we are here; and I thank the City of Lewiston for hosting this hearing here today in their City Council Chambers.

I also want to thank the witnesses who have so generously taken the time to be here today and to offer their testimony on one of the most pressing issues facing our State and our country. We are extremely fortunate to have key members of the President's Administration with us: the Honorable Grant Aldonas, the United States Commerce Under Secretary for International Trade, and the Honorable Pamela Olson, United States Department of the Treasury, Assistant Secretary for Tax Policy. Your presence here today attests to the President's understanding of manufacturing's importance to our economy and his commitment to aiding its recovery. As many of you know, the Small Business Administrator was supposed to be here today, Hector Barreto, but he was called away on a family emergency. However, he has submitted testimony that will be available through the Committee as well. Finally, among our panelists are Maine small business representatives, who are exceptional advocates for the manufacturing sector of our economy and have taken valuable time away from their businesses to make invaluable contributions to this hearing. I want to thank each and every one of you, and I am looking forward to hearing your testimony here shortly.

Let me open by saying that it would be impossible to overstate the role of small business manufacturers within the overall manufacturing industry and our Nation's economy. With small business manufacturers constituting over 98 percent of our Nation's manufacturing enterprises, employing 12 million people, and supplying more than 50 percent of the manufacturing value added in this country, it is a sector we cannot afford to ignore. Yet we know that no industry has witnessed a more profound erosion of jobs than U.S. manufacturing. That is why I have chosen to focus my first field hearing on strengthening this vital sector that has also been a traditional source of quality, decent wages and critical benefits.

The damage manufacturing has sustained is nothing short of stunning. From July 2000 through June 2003, almost 2.7 million U.S. manufacturing jobs have been eliminated. Incredibly, New England lost more than 214,000 manufacturing jobs in the last 10 years, with 78 percent of those losses occurring in the last 2½ years. Here in Maine, we have been shedding manufacturing jobs at an alarming rate over this past decade and all the moreso, in the past 2 years. From January 1993 through June 2003, we lost more than 18,900 manufacturing jobs, and, astoundingly, 17,300 of those occurred between July 2000 and June 2003. So we are far from heading in the right direction.

There should be no doubt of the need to bolster our manufacturing industry, especially with unemployment levels reaching a high of 6.4 percent in the United States. The bottom line is, if we are to ensure the road to recovery is robust, we have a special obligation to provide the tools for growth in manufacturing. It is not only critical for the preservation of the sector, but also to preserve other sectors of the economy. In fact, it has been reported that for every dollar in manufacturing product, an additional $1.26 is created in other industry sectors, such as supplies of raw materials, marketing and retail industries. That's more than a 100 percent return on the initial investment. We should be so lucky to do that with our mutual funds.

Looking even more broadly, a healthy manufacturing sector is essential to our Nation's security and its status as a world power. We must end this trend of becoming increasingly dependent upon other countries for the products we use and rely upon.

Now is the crucial time for everyone—industry representatives, Congress, the President, Republicans and Democrats alike—to work together toward the common goal of revitalizing our manufacturing industry.

Cheap imports from China constantly threaten the realization of our goal. In fact, China's trade surplus with the United States rose 25 percent during the first half of 2003. Although China is advantaged by low labor costs, U.S. manufacturers have consistently reassured us that they can compete with China, if only there was a level playing field.

The Chairman of the House Small Business Committee, Mr. Manzullo, and I have requested General Accounting Office study to examine the effects of China's manipulation of currency. We expect that study to be out next March or April—with certain encouragement to be done sooner. Then I will hold hearings at the Small Business Committee in Washington to evaluate those effects and what impact they are having. I think we know what the effect is on our industry.

I also urged the President in July—and, also, Treasury Secretary Snow in August, before his trip to Asia—to confront China concerning its unfair trade practices including its artificial manipulation of the yuan. I am pleased the Administration has increased its pressure on China. I am also optimistic, with the creation of the U.S./China Security and Economic Commission, that we will be able to focus on this issue as well. I have submitted testimony, along with those across the industry and in Congress, in hopes to have this commission aggressively address the China currency issue.

I am pleased that the President has created a position for manufacturers in the Commerce Department, an Assistant Secretary for Manufacturing, as a point person within the Administration on manufacturing issues.

Another matter that will have an enormous impact on domestic manufacturers is the replacement of the extraterritorial income tax and foreign sales corporation provisions that are in current tax laws to specifically provide U.S. companies that export a tax incentive to export their goods. The intent of those laws was to make U.S. exports more competitive overseas by reducing their maximum tax rate and corporate tax rate. However, these same tax incentives were targeted by the World Trade Organization as being noncompliant and as providing an export subsidy. Consequently, they must be repealed or else the United States could face $4 billion in sanctions. At the same time, such a repeal would add about $50 billion in manufacturers' tax burden over the next 10 years.

Last week in the Senate Finance Committee, of which I am a Member—we had to address this problem to remedy it, by creating a lower tax rate for all manufacturers so that they wouldn't face the effects of the repeal of the export tax that was available under the foreign sales corporation. I, and some other Members of the Committee, made sure that we included Subchapter S corporations, proprietorships and partnerships so that small business, per se, would not be excluded from this preferential rate. I am pleased that the Committee accepted several of my initiatives, and increased the phase-out for small business expensing from $400,000 to $800,000. I also worked with the Finance Committee to ensure that the tax break for manufacturers included softwood lumber producers. The softwood lumber industry here in Maine—like paper and steel—has faced unfair trade practices from countries that subsidize their products and dump them on U.S. markets, in violation, of course, of our trade laws. The Administration has taken a firm stance on enforcing trade laws. In particular, I want to thank the Under Secretary for his untiring work on behalf of the softwood lumber industry, and throughout the country, and in his negotiations for a fair market with Canada. The Finance Committee will work with this Administration on increasing our efforts to ensure that our trading partners comply with international trade agreements.

Of course, it's the Small Business Committee that has oversight jurisdiction over the Small Business Administration, and we just passed Senate legislation to reauthorize the SBA for the coming 3 years. Reflecting my concerns for Small Business manufacturers, that bill contains numerous provisions that will benefit manufacturers, including an increase in the 7(a) loan size from $2 million to $2.6 million for small businesses involved in exporting products; changes allowing small businesses to now participate in the 7(a) and the 504 loan programs simultaneously; and an increase of maximum guarantees for manufacturing loans from $2 million to $4 million. Provisions like these in the SBA Reauthorization bill should directly benefit small business manufacturers. Now, I will be engaged in the process of working out the differences with this legislation and the House legislation so that we can move this bill as quickly as possible before the end of this congressional session. It is also essential that the SBA is properly equipped to become more actively involved in small business importing and exporting programs and trade issues that directly affect small business manufacturers. That is why I intend to offer legislation, with respect to these issues and to increase the SBA's participation in trade negotiations. It will also improve access to capital for businesses that export, as well as for businesses that are adversely affected by unfair imports. Finally, the legislation will call for an increased SBA role with the U.S. Export Assistance Centers that are dispersed around the country and their participation in developing trade policy and negotiating trade agreements. So that's my vision, and that's what I hope to accomplish here today.

But, more importantly, I hope to focus more attention on small business manufacturers' concerns, and to hear from you firsthand, specifically, what we can do in Congress, with the President and the Administration to assist you. I want to learn what we can do in the short-term, as well as the long-term, to remedy many of the difficulties that you're currently facing as a result of this declining economy, imports, unfair trade and a host of issues that have made your responsibilities as small business manufacturers to keep your doors open all the more difficult.

So, as Chair of the Committee, I welcome you, I thank you for taking the time to be here today to express your views, because I certainly want to hear them. I should also say that we have the transcript being taken for this hearing today. Everybody will have a chance to submit their testimony for the record. We will be keeping this record open for the next several weeks so that people have the opportunity to follow up on anything that might be said here today, or to offer other testimony or information that they want to submit for the record. So, with that, I welcome each and every one of you.

Congressman Michaud, would you care to say anything?

STATEMENT OF THE HONORABLE MICHAEL H. MICHAUD, A REPRESENTATIVE IN CONGRESS FROM MAINE

Representative MICHAUD. Just briefly, Senator Snowe.

I do want to thank Senator Snowe for allowing me to participate briefly this morning. I am glad my schedule was rearranged and that I was invited by the good Senator. She is definitely enthusiastic about this issue and really cares about this issue and what effect it has, not only in the State of Maine, but all across this country.

Manufacturing definitely has been on the decline and I have been lobbying the Administration to create an Assistant Secretary of Commerce for Manufacturing and I am pleased that the effort finally paid off and that the President is moving forward with our suggestion to create such a position.

But also I am very pleased to say that I joined the House Manufacturing Caucus in order to delve into specific issues surrounding manufacturing and to work on addressing this spiraling program.

In addition to my membership of the Housing Manufacturing Caucus, I am a Member of the House Small Business Committee. This affords me the chance to hear the concerns of manufacturers and businesses of all sizes.

This is an important issue not only for the State of Maine but all around the country. I want to thank Senator Snowe for her leadership in this area, and I am looking forward to working with her in a bipartisan manner on and through this issue. Because it is not a Democratic issue or a Republican issue—it's an issue that affects people, jobs and the economy. I think we've all seen too much.

What has happened in the State of Maine, particularly since the beginning of this year, with the closing of large- or medium-sized businesses, can create a sometimes devastating economic ripple effect for small businesses in the area. They are losing manufacturing jobs left and right. We must to do something in a bipartisan manner to accept responsibility for many of the policies that currently hurt manufacturers, such as unfair trade agreements and spiraling health care costs.

So, once again, thank you very much, Senator Snowe, for allowing me to be here.

Chair SNOWE. No. I thank you, Congressman Michaud. I appreciate those words and I think all of you know that Mike obviously comes from Millinocket. Having worked at the mills for more than 30 years, he has witnessed firsthand the devastation of the closure of those mills. Fortunately, one of them is open and hopefully, the second will open with a new buyer. But clearly, it's been devastating for those communities in the region and also for the State. So I appreciate your being here today.

I would like to introduce the first panel. It consists of two high-ranking members of the President's Administration, each of whom are committed deeply to aiding small business manufacturers throughout Maine and the Nation.

Testifying first is Under Secretary for International Trade, Grant Aldonas. He is head of the International Trade Administration. Mr. Aldonas is the Commerce Department's main advisor on international trade and has been acting as the Administration's point person on manufacturing. The priorities of his office include expanding export opportunities for American businesses, enforcing trade agreements, and ensuring compliance with U.S. trade laws that curtail unfair trade practices by foreign companies, such as prohibiting dumping of foreign-made goods and the elimination of foreign manufacturing subsidies.

His office is known for placing special emphasis on working with small- and medium-sized businesses to ensure fair competition with foreign imports. As I said earlier, Grant has also been the President's point person for manufacturing, and I truly appreciate all that you have done on our behalf.

Testifying next is Pamela Olson, the Department of the Treasury's Assistant Secretary for Tax Policy. Mrs. Olson has responsibility for policy analysis relating to all aspects of domestic and international issues of Federal taxation. Her office also negotiates tax treaties for the United States. Mrs. Olson, and the Administration as a whole, remain committed to reforming and updating the tax system to ensure that it does not impede the success of American manufacturers.

So on behalf of the Committee, the State, and the small business manufacturers who are represented here today, and for all, we appreciate your presence here today. If you traveled to Maine, we hope you enjoy Maine and take some time to spend your money to help our economy, too.

Okay. We'll begin with you, Mr. Secretary.

STATEMENT OF THE HONORABLE GRANT E. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. ALDONAS. Thank you, Madam Chair. First of all, I want to thank you for the invitation and for your continuing interest in the success of our small business manufacturing sector. It's obviously been at the top of my list, and the Administration's list, for some time.

It's great to be in Maine. So far, all I have contributed to the economy was sticking 50 cents in the meter outside in front of the building, so I hope I get a chance to do that. I had the great fortune when I was a young of getting a scholarship to go to an Upward Bound program in Hurricane Island. And fell in love with the State of Maine and the people here. When I was going through the history of manufacturing, as we've been looking at the manufacturing sector hard over the past 6 months, it's striking how much of our history as a Nation in manufacturing starts here in Maine and elsewhere in New England. The sort of productivity gains—we have a saying, "it all starts with Yankee ingenuity."

At some point, way back in our past, and grappling at some of the issues that we faced then and still face today, the themes that you see are themes that we have seen throughout our history, frankly. In terms of trying to make sure that markets were open, trade was free. It wasn't burdened by government intervention, things of that nature. And I am very pleased that we have this kind of leadership coming from the State of Maine. It reflects well on the people here.

I am also pleased because, later today, I get to do one of my favorite parts of my job, which is hand out an Export Achievement Certificate to the Strainrite Companies—which is a wonderful example of a small manufacturer in Maine succeeding through exporting, frankly, by finding a market niche. Now, 15 percent of its sales are overseas. They sell their products all around the world. They, in fact, have become one of the world's most significant manufacturers of vessel housings, filtering operations and containers for hazardous waste. It's a success story. It's the kind of thing that, at the Commerce Department, we take great pride in. I know both of you do as well. It's important that we reinforce those efforts as we go through this process because there is a lot of value to be added there.

I was also struck by the news article in the *Sun Journal* this morning about Cianbro and the oil rigs that they had been producing for Brazil. Because, again, it's an example of, increasingly, where our business is in the United States. They are going to press for markets worldwide. We are going to have to work as hard as the next guy, and sometimes harder because we've got the most open and competitive market in the world, to make sure that we are out there finding new markets and finding new sales techniques.

The Cianbro sales are a marvelous example of taking what was a company that was dedicated to the manufacture of pulp and paper and turning it into something very different. But $100 million in revenues as a result of the effort they made to make good with the Brazilians. But let me turn to the substance of our conversation today.

The first thing I want to do is assure you both of the Administration's cooperation in your efforts to ensure that we are building the best economic environment we can for small- and medium-sized manufacturers. That was the motivation behind the President's announcement in March, of the manufacturing agenda of which our initiative has been a part.

The Secretary of Commerce directed me to, essentially, go and have a conversation with our manufacturers across the country, find out what their challenges were, come back with a report and recommendations in terms of how to grapple with those challenges. What we've done since that time is hold roundtables across the country in 23 cities with manufacturers, both large and small, representing virtually every industry in the United States. I am happy to report on some of those findings today, but the most important thing I want to convey—and I really appreciate the Congressman's point about bipartisanship because what this is going to require is really tackling what I have come to describe as a crisis of neglect, particularly for our small- or medium-sized businesses. What you find is, unlike the folks that we have on the panel today, at all levels of Government and in every branch, and here I include the courts—what you really have are, not through any meanness of spirit, but decisions that are made with a sense that the individual decision is not that high relative to the benefits that we see.

What we have had a tendency to forget is the multiple burdens that we create as every level of government and every branch of government imposes additional costs on our small businesses. Just to put this in perspective, as I am sure we will hear on the panel that comes next, the most striking thing about going across the country and talking with small manufacturers is just how good they are, and how hard they work at getting their own costs down so they can compete in a environment where there is a constant pressure on their pricing power.

What I would like to see, frankly, is that as a government, both inside the Administration and in Congress, that we are doing the same things with the sorts of costs that we impose on business. That we are matching their level of effort in terms of driving those costs down. The reason I say that is that when we went across the country, what you really heard—let me try and group the issues in two different ways.

One, the first problem that you heard, and although it wasn't with the intensity as the second problem, it certainly was the weight of most of what we heard about from small manufacturers, and that's what I have come to call "keeping our own side of the street clean." As a practical matter, whether it's rising energy costs, rising health care costs—of which I know, Senator Snowe, you offered an awful lot leadership over a very long time—pension costs, the costs of personal injury suits.

I was struck 2 weeks ago, as I was trying to go through a part of the report on tort reform, that a decision was made in Federal District Court in New York saying that Boeing could be sued, because the events of September 11 were somehow foreseeable, as a manufacturer of aircraft. That's absurd, frankly. For the 35,000 small suppliers that provide their goods and services to Boeing, it's catastrophic. It not only affects that group of 35,000 suppliers, it affects small businesses at large. Because when decisions like that are made in the courts, it raises insurance costs for everybody and the insurance costs are most dramatic for small- and medium-sized businesses, who end up paying—big companies do as well. The big companies can deal with it, seeing those sharply rising costs is much harder in terms of the small- and medium-sized businesses. So there is fair domestic agenda that we have to tackle.

Now, probably the first thing out of the box, and to really reinforce the point that we had made to the manufacturers, was we weren't going to wait for a report when we knew there was some obvious answers.

So one of the reasons the President has come forward—and I really appreciate the support, Congressman, in terms of trying to provide a focal point inside the Administration for manufacturing—is really to combat this crisis of neglect. Trying to provide a focus so that there is a constant advocate for small- and medium-sized manufacturers inside the Administration and inside our Federal Government that is constantly raising the issue of the costs of the decision we make—whether it's in Congress, whether it's in the Administrative agencies, or in the courts—so that we recognize the impact we're having on competitiveness.

I am certain that as Pam starts to talk about the tax side, one of the things you are going to hear is that, in an economy as integrated into the global economy as ours is, there is no domestic economic policy choice that does not have an implication for our competitiveness. That's why we have to focus so hard on it, and need to focus inside the Federal Government, frankly, to bring those costs to light. Now the second thing, which I have to tell you generated a lot more heat, was the issue of leveling the playing field. Where, again, I know that both of you have been consistent advocates in terms of what we face.

There are three issues, one of which is surprising to me. This didn't come out of the conversations with the manufacturers so much as it came out working hard on the numbers, on what we see in the economy.

The first thing is the lack of economic growth abroad. We have a tendency to look at unfair trade practices, we have a tendency to look at the exchange rate side—which are crucial problems, I'll get to those in a minute. What was fascinating to me is that when we see the rising trade deficit particularly over the last, say, 4 to 5 years, sort of from the Asian financial crisis in 1997 forward, the most significant thing is the drop in our exports. What's important to realize is that 97 percent of all our exporters are small- and medium-sized manufacturers. This is a huge hit on the guys that are behind us, that will be testifying later. It's a huge hit on the folks who they supply, even if they don't export directly like Boeing—things like that. It is directly attributable to the lack of growth in both Europe and Japan. So one of the things that you'll see is Administration, Secretary Snow, the President, certainly Secretary Evans, being a strong advocate with our friends and our trading partners in Europe, Japan and elsewhere in Asia. That we really have to get off our duffs and get their economies moving as well, because growth can kill a lot of what ails both the manufacturing sector in the United States as well as the manufacturing sector abroad.

But turning to the two main issues, obviously, on exchange rates, it's the Treasury's province. There are serious problems. I know they will be coming out with a report next week about currency, as they are required to do on a regular basis. The main thing to keep in mind—and here I am going to pause for a second on China—is that we often looked at the exchange rate as the signal in the marketplace—but what it really reveals is our structure underneath the exchange rate from the Chinese economy for example. One of the things that I think is probably important to understand is the Administration has been the most vigorous that I have ever seen, in 25 years of dealing with these issues, in terms of trying to tackle those underlying problems. Because that's the solution that has to be solved, frankly, before the Chinese will see that it's in their own interest to change the peg at the end of the day. One of the best things they could do is open up their financial services market. I know from your perspective on the Finance Committee center that one of the things that we are arguing for is not only on the manufacturing side, but trying open up services markets. I never want to forget that by opening up the services market, like capital markets in China, we would do a world of good for our manufacturers as well.

The last thing is unfair trade practices. Plainly, when you look at China and other countries, and I don't mean to single out China, because it obviously is just one of a number of countries that we face. But one of the things that you have to face is the equity in the trading relationship. Is there an equivalent set of opportunities for our guys there? Are we facing what is undistorted trade coming into our market? And there, I think, you really have to go to the core of the Chinese system. As I have talked with manufacturers across the country, it's true we face significant tariff barriers going in. We face WTO non-compliance. We face what we think are subsidies in dumping coming into our country. Probably the most important thing is the fact that their companies don't face the capital market pressures that our small businesses do in the United States. They simply don't have to turn a profit. If there is a single thing that Secretary Evans and I will be doing in China in about a week is confronting them with what is the ultimate subsidy. As long as the spigot stays on from the state-owned banks to the state-owned enterprises, those goods will try and find a market. They will be dumped in the most open market in the world—and that's the United States, as a practical matter.

What we are doing on both those fronts—I know Secretary Snow has already taken up the issue of exchange rates. We will be pressing that when we are in China in a week.

On the trade side, what I have done is, as you know—I have been working pretty hard in terms of trying to make sure we are doing a credible job of enforcing the trade laws. We need to take that one step further. As far as I am concerned, one of the weaknesses of our current trade system is that we are obliged to wait, literally, until an industry is injured, before we get a petition—whether it's on dumping or countervailing duties. You've seen this in the lumber and the paper industry over time. What we really need to do is get out and investigate the issues, the allegations, as we find them—before an industry has to be injured. Act aggressively on it with our trading partners and let them draw the conclusion as to whether or not they want to trade in our market, or whether we will use the leverage of our market to ensure that they're adhering to the rules, that they are playing fair, and that our guys aren't facing subsidized competition.

Thank you very much.

[The prepared statement of Mr. Aldonas follows:]

"Small Business Manufacturing in a Global Market"

Grant D. Aldonas
Under Secretary of Commerce for International Trade Administration

Testimony before the Senate Committee on Small Business and Entrepreneurship
Lewiston, Maine

October 9, 2003

Madame Chairwoman, thank you very much for inviting me to participate in this hearing to discuss trade issues affecting small business manufacturers and the Department's role in implementing the President's Manufacturing Initiative. This Administration realizes the difficult obstacles Maine has faced over the past decade with the loss of over 18,900 manufacturing jobs and is fully committed to implementing a strategy that ensures that government is fostering an environment that promotes a dynamic industry. I appreciate your willingness to focus the committee's attention on issues affecting small business manufacturing in a global market.

As you know, the Bush Administration is deeply aware of the vital role small and medium sized enterprises (SMEs) play in the world economy today and is committed to working on their behalf. They are engines of growth and innovation, foster competition and promote the spirit of entrepreneurship. The 23 million small companies in the United States create the majority of new private-sector jobs and generate over half of the nation's gross domestic product. Small businesses hold an increasingly large stake in overseas markets thanks to trade. A great example of this is Strainrite Companies located in Auburn, Maine. They employ 85 people in Maine and another 40 people throughout the United States, and currently have $10 million in sales, including sales to China, Japan, the UK and Mexico.

Liberalized trade is essential to the future of small businesses and to all they employ. The numbers tell the story: from 1992 to 2001 small and medium-sized enterprises (SMEs) that export merchandise soared from 108,026 to 230,736. SMEs accounted for nearly 98 percent of the 1992-2001 growth in the exporter population. By 2001 manufacturing companies made up approximately 1/3 of SME exports (33 percent in 2001), and generated 40 percent of total SME merchandise exports.

As trade liberalized, small manufacturers benefit from a greater supply of inputs at lower prices, enabling them to remain competitive. Opening trade also helps small business exporters more than large companies in a fundamental way. While large companies usually have the resources to access foreign markets in two ways - either by exporting or by setting up foreign subsidiaries- most SMEs have only one option, and that is to export. In practical terms, that means that the more we lower foreign trade barriers, the more SMEs benefit compared to their larger competitors. In 2001, 90 percent of all SME exporters did business from a single U.S. location. Just 17 percent of

SME exports went to foreign affiliates in 2001. In contrast, 40 percent of the exports from large firms (500 or more workers) went to related parties.

Additionally, small businesses play an important economic role as suppliers to exporting companies. Export activity triggers ripple effects in supporting sectors throughout our economy. These jobs, which most people do not associate with exports, are found in firms that furnish exporters with parts, raw materials, and services. Service companies that support exporters include those in wholesaling, transportation, banking, computer services, accounting, and insurance.

The Administration is dedicated to helping small businesses sell their goods and services in foreign markets, and we are seeking to level the playing field with our trading partners by taking a tough negotiating stance on trade agreements. Small and minority owned company representatives serving on our Industry Sector Advisory Committee for Small and Minority Businesses (ISAC 14) have outlined issues of particular concern for small business trying to export their products, including:

- Transparency and streamlining of business rules and regulations, including rules that govern dispute resolution, taxation, finance, and trade.

- Harmonization of standards and elimination of non-tariff barriers; unjustified or unreasonable licensing requirements, inspections or bans can add costly processes and prohibitive steps to the small business transaction.

- Simplification of rules of origin

- Enhancing transparency for customs entry and clearance procedures: For small businesses, paperwork and inconsistency in customs policy and regulations can serve as prohibitive barriers to trade.

This Administration has been actively and aggressively pursuing each of these trade issues on behalf of small business in the WTO and through the negotiation of free trade agreements.

Further, the Department of Commerce helps U.S. companies, particularly small and medium-sized businesses, promote and sell their products and services in international markets. Through a world-wide network of over 100 U.S. offices and 151 international posts, U.S. Commercial Service experts guide firms through every stage of the export process. The Department, through its Export Achievement Certificate, recognizes companies that are clients of the U.S. Commercial Service, and have used their services to make their first export sale, open new foreign markets or overcome exporting challenges.

Later today I will be presenting an Export Achievement Certificate to the Strainrite Companies of Auburn, Maine. They are an excellent example of a family-owned Maine manufacturing business succeeding in the international marketplace. We are thrilled about their success and I congratulate them.

Additionally, on the import side, the Department of Commerce is actively and aggressively pursuing strong enforcement of our trade laws, and will do everything we can to ensure our domestic industries obtain effective relief from unfair trade practices. No matter the size of the company, the Department offers a wide variety of technical assistance to U.S. producers that wish to pursue actions under the U.S. unfair trade laws. We are available for consultations with small- and medium-sized businesses to discuss their concerns regarding the possibility of unfair trade, and the remedies available to them under U.S. law.

Our Import Administration's Pre-Petition Counseling staff is available to provide information to any U.S. businesses with questions about unfair trade remedies. We listen to companies' concerns that certain imports are being unfairly traded, explain the unfair trade laws, and advise the companies of the remedies under the antidumping and countervailing duty law.

U.S. Manufacturing Sector: The Economic Context

Let me now lay out the economic context for discussing the health of our manufacturing sector. I want, first, to underscore the continuing strengths of the sector. We tend to forget that the United States remains far and away the largest producer and exporter of manufactured goods in the world. Standing alone, our manufacturing sector would rank as either the 4^{th} or 5^{th} largest economy in the world. Far from being hollowed out, our manufacturing sector is, in fact, larger than the entire economy of China.

In addition, I think it's important to stress that productivity in manufacturing today is higher than it was even during the late 1990s when everyone was speaking about a "new economy." Those increases in productivity, and the policies that we have adopted to reinforce them, have allowed the United States to reclaim the top spot in the World Economic Forum's rankings as the most competitive economy in the world.

The productivity numbers are important for another reason that reaches beyond the current economic prospects of our manufacturers. What they reinforce is the importance of a healthy manufacturing sector at the core of our economy. According to Paul Krugman, the noted economist and, I should add, at times a critic of this Administration, "Productivity isn't everything, but in the long run it is almost everything. A country's ability to raise its standard of living over time depends almost entirely on its ability to raise output per worker." What both the latest statistics and Krugman's comment point out is the contribution that manufacturing makes to innovation – innovation that is key to raising our productivity and the standard of living enjoyed by all Americans.

Having said that, there is no doubt that our manufacturers face some very significant economic challenges in today's business environment. Most importantly, they face continuing pressure on pricing power and profit margins due to the excess capacity on the market even as the recovery from the recent recession takes hold. The most recent figures suggest that the economy grew at a 3.3% rate in the second quarter of this year and the pace of economic activity appears to have accelerated since then. Timely fiscal stimulus and management of the money supply appear to have set the foundations for a solid recovery.

It now appears that manufacturing, after many months of very slow growth, is beginning to participate in that broader economic recovery. Durable goods orders have been up generally, although down in August. And, the Purchasing Manager's Index, a key indicator of future economic growth, is now consistently above the level that means stronger growth ahead.

Even on the unemployment front, there are signs of job growth consistent with a stronger economy. It's probably worth recalling that unemployment rates have remained just above 6 percent for four months. Not that long ago, that would have been perceived as relatively low in terms of unemployment.

Having said that, I want to reiterate, as the President has, that the Administration is committed to working towards an economic climate where everyone that wants a job has one. And there is an important story to tell about the unemployment figures in manufacturing.

The job losses began in 2000 when the manufacturing sector entered into a recession about 10 months earlier than the economy as a whole. The economy was just beginning to cope with the effect of a sharp drop in business investment as industry pulled back from a period of heavy investment in technology. Not surprisingly, most of the job losses in manufacturing came in precisely those industries – telecommunications equipment and computing – that benefited most from the boom in investment related to the "dot.com bubble" of the late 1990s.

What has surprised most economists has been the fact that manufacturing continued to shed jobs deep into the recovery of the economy. As recently as this past month, manufacturers dropped another 93,000 from the employment rolls. Employment in manufacturing has been declining for decades as productivity gains have significantly reduced the number of worker-hours needed to produce a given product. Those gains have averaged 3% or more for the last 15 years. And, employment in manufacturing has fallen commensurately.

Some share of the recent reduction in manufacturing employment during the initial stages of the recovery and expansion is directly attributable to the efforts of manufacturers to cut costs and raise productivity. Under considerable competitive pressure, American manufacturers are finding ways to do more with less. And, the labor market is responding by shifting jobs to other industries.

That said, the more important thing to focus on for purposes of our discussion today is the link between the competitive pressure that has driven American manufacturing to pursue those productivity gains and what is going on in the international environment, particularly with respect to our trade with China and its emergency from a fully state controlled economy to become a major force in manufacturing.

On the international front, one of the most frequently cited statistics is our trade deficit, which has been growing overall and particularly with China. Although the trade deficit is often thought of as an indicator of our competitiveness, and over long periods of time it is such an indicator, today it is better understood as a measure of the relative growth in our economy compared to our trading partners. In past recessions, continuing growth abroad mitigated the effect of the U.S. recession on our manufacturers. In the most recent recession, that did not happen. Japan led and Europe followed us into the recession and neither has yet to climb out to any significant degree.

The data behind the trade deficit bear out the effects of differences in economic growth rates between economies. While the common perspective is that the entire deficit is due to an increase in imports, the truth is that our exports have fallen off far more sharply. That points to the fact that the economies of both Europe and Japan are stagnant. As former Treasury Secretary Lawrence Summers put it, "The world economy is flying on only one engine." That engine happens to be the United States. In eleven of the last twelve years, US economic growth has outpaced that in Japan, Germany, and the European Union.

What's more, slow growth among our leading trading partners is not new. Japan's economy, which still represents close to 2/3 of the gross domestic product of Asia, has barely grown for a decade. Germany's economy has not grown appreciably in three years. On top of that, the rest of Asia, with the notable exception of China, has presented a very mixed picture in terms of economic growth since the onset of the Asian financial crisis in 1997. While some economies have recovered, others have not. And, these are markets that were once among the fastest growing in the world – markets that had become significant consumers of the sorts of advanced technology capital goods that our manufacturers sell.

What that should tell us, both in terms of the economy as a whole, and the manufacturing sector in particular, is that perhaps the most significant single action we could take is to step up encouragement of our trading partners, particularly Japan and Germany which together make up 20 percent of the world economy, to jettison their anti-growth policies and to adopt policies that are designed to boost economic growth. We need to preach what we practice because the alternative to growth is always a zero-sum game of dividing up the existing pie and that leads directly to the sort of strains we are seeing now in our trade relationships.

Our Trade Relationship with China

Which leads me to China. In the more than 20 roundtables the Department held with manufacturers across the country over the past six months, there was no single country that garnered more attention than our trade with China and its emergence from state-imposed economic isolation to become a major center of manufacturing. The Chinese have made considerable progress over the last two decades in lifting more than 200 million people out of poverty by relying ever more heavily on the market to direct resources within its economy.

The stakes involved are high. China is our fourth largest trading partner. Bilateral merchandise trade reached $147.2 billion in 2002. Last year, China overtook Japan to become our third largest source of imports. In July of this year, China surpassed Mexico to become our second largest source of imports. Our imports from China are more than five times greater than our exports. The bilateral trade deficit hit $103 billion in 2002 and reached $65 billion in the first seven months of this year. In addition, China has provided help on a number of fronts – from the arms talks with North Korea to the War on Terrorism. China has helped on the economic front as well. Along with the United States, China accounts for most of the current growth in the world economy.

The upside is that China's economic policies have brought about a rising standard of living in China and considerably higher disposable income. All of that makes China an attractive market for much of what we produce in the United States.

It is worth noting that since 2001, China has been our fastest growing export market by far among our top ten trading partners. Our exports to China surged 19% in 2001, 15% last year, and more than 22% in January-July even though our exports to the world declined 7%, 5%, and rose less than 3% during the same respective time periods.

One of the basic reasons for negotiating for 13 years with the Chinese over their accession to the World Trade Organization was to ensure that we would knock down the many barriers to entering China's market. On paper, the accession agreement represents a considerable success. Today, the tariff rates that China imposes are lower on average than much of the rest of the developing, and in some instances, the developed world. In addition, the WTO agreement obliges China to protect the intellectual property of U.S. manufacturers and service suppliers. The agreement also eliminated many of the barriers to the free distribution of American goods throughout the Chinese economy, instead of being beholden to trading through a Chinese state enterprise as in the past.

The situation facing our manufacturers from a competitive perspective was far worse prior to China's entry into the WTO. Our manufacturers lacked access to the Chinese market, but their manufacturers had relatively free access to ours. In the first year following China's accession to the WTO, I think both Congress and the President showed an extraordinary amount of patience as China worked to pass the literally thousands of new laws needed to bring the country into compliance with WTO rules.

Now, as we move deeper into the second year of China's participation in the WTO, we need to see actual enforcement of those laws and basic compliance with WTO rules in other areas. I know that the President, Secretary Evans, Ambassador Zoellick, and most recently Secretary Snow have all made that point vigorously with their counterparts in China. And, I can attest that, at a working level, the rest of us have taken up the cause just as vigorously.

But, there is still a very, very long way to go. We have considerable challenges in terms of WTO compliance, particularly in areas like the protection of intellectual property that represents the key U.S. competitive edge in many manufacturing industries. In fact, no country raised more attention as a source of concern than China during the roundtable discussions. Our manufacturers complained about rampant piracy of intellectual property; forced transfer of technology from firms launching joint ventures in China; a broad range of trade barriers; and capital markets that are largely insulated from free-market pressures. We also heard rising concerns about the timeliness and direction of China's implementation of its WTO commitments in areas such as transparency, IPR protection, trading rights and distribution services, agriculture, and financial services.

Fundamentally, China's change from a non-market economy to one that operates fully on market principles is incomplete. Although the Chinese often make the case that they are a market economy because they want the benefits that designation would yield under our antidumping laws, the simple fact is that many of the main drivers of the Chinese economy remain in state hands. Whereas U.S. companies face continuing pressure from our capital markets to turn a profit, that pressure simply does not exist in many cases in China.

In one sense, this problem is not new. American firms have seen the same pattern in other Asian markets for years. Even the 1997 financial crisis has not weaned industries or governments from those unhealthy practices – witness Korea's continuing support for the Hynix semiconductor operations, a company that was otherwise headed for liquidation.

I recognize that many commentators see a demand for a "level playing field" as a demand for protection, but that is not always, or even usually the case. Most manufacturers I have spoken with over the last six months didn't want protection; they wanted the unfair trade practices that rigged the game against them eliminated. A good example is the forest products industry, which has an enormous fight with Canada over subsidies. In the context of our roundtable on forest products manufacturing their principal request was for the President to negotiate the elimination of the barriers they faced abroad and the subsidies they faced in terms of competition from imports.

The same held true for most manufacturers with whom we discussed China. There was a strong recognition that we were better off in a world in which the rules were observed and the competition was fair, than a world segmented by trade barriers which would mean less trade and slower economic growth for all.

At the same time, I also must stress that there are significant parts of our manufacturing sector that are under extraordinary pressure to adjust to new levels of competition from imports, particularly from China. Industries like textiles and apparel in the south and tool and die in the Northeast and Midwest offer examples of the sorts of pressures our manufacturers face. Both the challenges and the pain felt in many communities are very real.

In the case of textiles and apparel, the challenges are particularly intense because the industry is emerging from a 40-year period when it was protected by quotas on imports of competing material and clothing. As a consequence, the industry remains highly fragmented and is being forced to go through, all at one time, the adjustment and consolidation that most U.S. industries went through in the 1970s and 1980s.

In the last round of world trade negotiations, President Clinton agreed to phase out the quota system that had protected the textile industry. Most of the truly sensitive items from the perspective of U.S. industry were given the longest phase-outs. But, the quotas will come to an end on January 1, 2005, and that will mean still stronger competition from imports.

What is not generally understood is that most of the sharp increase in Chinese imports has come at the expense of our other trading partners. As new products have come free of quota arrangements, retailers no longer face the need to source products from multiple countries. Instead, much of what was previously shipped to the United States from other Asian countries now comes to us from China. But, that has not meant less pressure on U.S. manufacturers in terms of price competition.

While the argument most frequently raised about China by commentators seems to be the difference in wage rates, most of my conversations with manufacturers, particularly in textiles, suggested other reasons for increased Chinese competition. What is not often understood is that, today, the textile industry is actually very high tech. There is very little labor involved in many products that come out of the industry and wages are a relatively small portion of the total cost of production except in the case of products that require considerable hand stitching.

The truth of that statement was brought home to me in a conversation with a North Carolina manufacturer of textile products used in the luggage industry. Most bags today are made with some form of rip-stop material, none of which is hand sewn. Nor is the frame of most roll-on bags manufactured by hand. Yet, the North Carolina manufacturer showed me 5 suitcases, one nesting inside the other, that sold for a total price – delivered from China – of under $30. In other words, the total cost of the five bags was below the North Carolina manufacturer's cost of materials alone.

The point to that story is simply that it is not wages alone that allowed the Chinese manufacturer to sell the 5 pieces of luggage for a delivered price of less that $30. The cost of most of the materials is determined in world markets, so if the Chinese economy were open to international trade and competition, then the Chinese manufacturer's materials costs would be comparable to that of the U.S. costs. This means that to get the delivered price down to below $30 there must be a very large amount of government subsidy, express or implied, to the manufacturer – a subsidy that can take the form of an outright cash grant to the exporter, but more often will take the indirect form of tariff protection against competition, the forgiveness or rebate of taxes, or the continuing extension of credit to uncreditworthy enterprises.

In my view, although the textile industry is commonly criticized for seeking protection based on the past 40 years of quotas, the complaint that has led the industry to seek safeguards against Chinese imports stems from a different motive. There is no real argument that the Chinese market operates fully on a market basis, and the reasons for the industry's request for help stems from that simple difference between the pressures they face in our market on a day-to-day basis and the pressures that their Chinese competition doesn't.

What that also points out is the fact that, in addition to pressing the Chinese at every opportunity on their compliance with their WTO commitments, we also have to be extraordinarily vigilant regarding the injurious effects of other forms of government support for Chinese industry that are not covered by current WTO rules. Those sorts of practices require a different type of tool – one that requires digging out the facts regarding the underlying competitive differences that our industry faces in terms of import competition from China.

As I noted above, the textile industry is not alone in facing Chinese subsidies and protection. Other industries like tool and die face similar competitive conditions. That is why one of the most forward-leaning recommendations we intend to make regarding our trade is the establishment of an office in the Commerce Department, the sole function of which will be to investigate these sorts of practices. When we find these anti-competitive practices, we will vigorously seek their elimination by the Chinese and by other trading partners.

The one thing I can assure you, is that the Department of Commerce is dedicated to making sure China does play by the rules. We will vigorously pursue China's compliance with its WTO commitments and we will enforce our domestic unfair trade laws rigorously and fairly, as both President Bush and Secretary Evans have made clear.

The Department of Commerce's Role in Trade With China

The Department of Commerce, in close coordination with USTR and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its WTO commitments and that U.S. companies benefit from these opportunities. We will target unfair trade practices wherever they occur. We are exploring the use of new tools to expand our trade promotion activities in China. We are expanding efforts to engage Chinese officials to make sure they "get the rules right" as they continue their enormous task of restructuring their economic system.

The Commerce Department has actively provided WTO-related technical assistance to China since September 2000, well before China's accession to the WTO. Initial programs focused on increasing the awareness of general WTO principles among Chinese government officials. As China developed an increasingly sophisticated understanding of the WTO system, our programs have been tailored to more specific areas, such as standards development and intellectual property right (IPR) protection. For example, in 2003 Commerce sponsored or coordinated programs on fertilizer standards, antitrust, government procurement, medical device regulatory training, and information and communication technologies standards and conformity assessment.

Despite China's commitments to crack down on rampant piracy, counterfeit CDs, DVDs, and pharmaceuticals continue to flood the market. In addition, piracy and counterfeiting in China has a significant impact on U.S. intellectual property rights holders in China itself. In fact, the International Intellectual Property Alliance estimates that business software, music, movie and entertainment software piracy rates in China exceed 90%, with damages of $1.85 billion in 2002. We have raised specific IPR concerns during our meetings with senior Chinese government officials and have repeatedly demanded that the Chinese government uphold its bilateral and multilateral IPR commitments.

Through the annual Special 301 process, we scrutinize China's IPR conditions in close coordination with our colleagues in other agencies. To make sure that China has the tools to implement its commitments, we have organized a series of seminars with Chinese officials. Programs in development for later this year include a WTO pharmaceutical regulatory seminar and anti-counterfeit training, and IPR criminal & border enforcement seminars. We have worked on these programs on an intra and inter agency basis, using the resources of US Patent and Trademark Office, Department of Justice and other agencies. We think China can and should do better in these areas. We continue to press for progress.

However, keeping our focus on China's WTO implementation and the country's other trade practices is only part of the solution. We must continue to enhance the ability of U.S. businesses to compete in China. We are increasing our efforts to ensure that U.S.-developed technical standards are accepted in China just as they are throughout the world. We are launching "Doing Business in China" seminars in cities across the country to address concerns about the Chinese market from small and medium-sized businesses. We are exploring ways to develop more trade leads in China and to provide even more targeted information on opportunities in China for companies in the U.S.

Combined with these domestic efforts, we regularly engage Chinese government officials to ensure trade agreement compliance and market access for our products and services. Secretary Evans will visit China in October to advance U.S. interests and advocate for a level playing field in our economic relations with China. We will have another opportunity to raise outstanding issues during the 15^{th} U.S.-China Joint Commission on Commerce and Trade (JCCT) to be held in Washington in early December.

The President's Manufacturing Initiative

With that, I would like to turn to the topic of the President's Manufacturing Initiative. In March of this year, during Manufacturing Week, Secretary Evans had the opportunity to speak before the National Association of Manufacturers in Chicago. At that time, he announced the President's Manufacturing Initiative.

As a part of that initiative, Secretary Evans directed me to lead a comprehensive review of the issues influencing long-term competitiveness of U.S. manufacturing. The central goal of the review is to develop a strategy to ensure that government is fostering an environment that promotes a dynamic manufacturing industry. The review will conclude with the release of a report later this fall.

The Commerce Department's senior management, including Secretary Evans and Deputy Secretary Bodman, all pitched in. We held roundtable discussions with manufacturers in the aerospace, auto, semiconductor, and pharmaceutical sectors, among others, in more than 20 cities across the United States – from Manchester, New Hampshire to Columbus, Ohio, to Detroit to Los Angeles – to develop the report and recommendations.

What we heard from manufacturers in terms of the challenges they face was significant. While the international competition is what has garnered most of the attention in the press, by far the greater weight of the manufacturers' comments focused on domestic issues – what I call "keeping our side of the street clean." What I mean by that is simply paying attention to the needs of our manufacturers as we develop legislation or implement regulations. It is the steady accumulation of multiple burdens, rather than a single cause, that has had the most severe impact on the competitive environment in which our manufacturers operate.

The list of issues our manufacturers identified should not surprise anyone who has taken a serious interest in manufacturing. While our manufacturers have tightened their belts and raised their productivity in an effort to remain competitive and, in fact, to succeed in the day-to-day competition in the marketplace, they have seen that advantage and the hard-won productivity gains eroded by everything from higher energy costs to higher medical and pension costs to higher insurance costs due to a run-away tort system.

Just a few examples might suggest why manufacturers have seen their costs rise. We heard from manufacturers in New Jersey that 30 cents of every dollar of revenue went to pay health benefits for employees. Manufacturers gladly pay for their employee's health benefits because they see their own interest served by a healthy and motivated workforce, but if we are serious about manufacturing, we have to be serious about grappling with the underlying drivers that have created 145 percent increases in health care insurance costs that obviously are not sustainable indefinitely.

In Michigan, I met with auto parts suppliers that faced continuing pressure from the auto companies to lower their prices by 20 percent or face the prospect that the auto companies would turn to overseas sources of supply. Much of the concern those parts suppliers reflected the terms on which they compete with those overseas suppliers, particularly in China. But the auto parts suppliers knew that the ultimate source of the problem lay in an auto industry that is grappling with the same sorts of legacy costs that burdened the steel industry. If we are serious about manufacturing, then these industries will have to get those financial obligations under control.

In Columbus, Ohio, Des Moines, Iowa, and in my hometown of Minneapolis, Minnesota, I met with manufacturers in the plastics and adhesives businesses that are heavy users of natural gas. The companies in the plastics businesses in particular risk seeing whole new markets fall to their foreign competitors who see lower natural gas prices. If we are serious about manufacturing, we have to adopt a national energy plan that will help us access new sources of supply and improved transmission to reduce the cost of energy to our manufacturers as well as to consumers.

Another example we heard from virtually every manufacturing trade association we met with was the need to eliminate the complexity and the disincentives our tax system creates for investing in manufacturing in the United States. Any number of issues fall in that category. Take the bias in the current tax code against equity financing, which raises the cost of capital, thereby reducing the investment. This bias also translates into a preference for debt, which yields highly leveraged companies and a highly leveraged country, all the while encouraging the worst sorts of gaming as clever tax lawyers try to find ways to take what is an equity interest and call it debt in order to qualify for an interest deduction. Taken together, even without cutting rates, reforms of the tax code could make a profound difference to the relative attraction of investing in manufacturing in the United States.

But, perhaps the most egregious example comes out of the tort system in this country. One issue, in particular, stood out among the manufacturers' concerns about the tort system. That was the ongoing asbestos litigation. There, the continuing litigation has yet to help many individuals who were harmed by prolonged exposure to asbestos, while, at the same time, the litigation hangs over virtually all U.S. manufacturing, raising their insurance costs and dampening their returns. Clearly, if we are serious about manufacturing, we have to get serious about reforming the tort system.

Manufacturers also pointed to declining vocational school programs, declining enrollments in engineering and the funding of scientific research, all of which are essential to the productivity gains that keep our manufacturing sector competitive and keep a skilled workforce employed.

Finally, as I noted above, in addition to keeping our own side of the street clean, U.S. manufacturers demanded a level playing field. For most, that translated into a demand that we negotiate down tariff rates that are higher than ours and break open new markets. Or it translated into a demand for the enforcement of rules barring the theft of intellectual property. It translated into a demand for the enforcement of our unfair trade laws or laws against customs fraud.

What I did not see was an interest in outright protection. Rather, most manufacturers saw trade as a simple question of equity. If we keep our markets open to our trading partners goods, they should do the same for us. But, where our trading partners did not live up to the terms of our agreements or otherwise heed the rules, our manufacturers expected that those trading partners should pay a price.

While we are still in the process of finalizing the report and recommendations across many fronts, Secretary Evans has outlined several new initiatives in response to the concerns we heard from manufacturers, particularly the need for a stronger focus within the U.S. government on manufacturing and the most immediate cases of unfair trade affecting our manufacturers. The first initiative, announced by the President on Labor Day, is a new Assistant Secretary of Commerce to serve as the point person in the Administration and within the U.S. government for manufacturers and as an effective advocate for the manufacturing sector's competitiveness. There are many programs within the federal government that bear on manufacturing, but heretofore there was no one person or one office responsible for bringing their efforts into a coherent strategy. The second would call for the creation of Assistant Secretary for Trade Promotion to boost our exports, particularly to those markets that our negotiators have recently opened to our trade like China. And, the third is the establishment of an Unfair Trade Practices Team to track, detect, and confront unfair competition before it injures an industry here at home.

We expect the report and the remainder of the recommendations to be out soon. In addition to moving on the implementation of those recommendations, we intend to do two things to follow up. The first is to go back to the manufacturers we visited earlier this year to get their reaction on what we have suggested and to help us refine our approach as we move forward. The second is to discuss the next set of issues we intend to tackle as part of our on-going commitment to support our manufacturing sector.

That concludes my testimony. I would be pleased to answer any questions that you may have.

Chair SNOWE. Thank you very much, Mr. Secretary.
Secretary Olson.

STATEMENT OF THE HONORABLE PAMELA OLSON, ASSISTANT SECRETARY [TAX POLICY], U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, D.C.

Ms. OLSON. Thank you, Madam Chair, Congressman Michaud. I appreciate the opportunity to appear before you today to discuss current tax issues affecting small business manufacturing in a global market. I especially appreciate the opportunity to come outside the Washington Beltway. I am looking forward to hearing what the folks on the next panel have to say.

In Washington, we tend to think of things in a macro sense. Which is a lot like sticking one foot in a bucket of ice water and another foot in a bucket of boiling hot water and saying, "On average, I am comfortable." When you look at things on a micro level, as this field hearing gives us the opportunity to do, you get a very different picture from the picture that you get when you look at things from a macro level.

Small business, as you've noted, has been fundamental to the United States throughout our history, but only in recent decades has the global marketplace acquired the prominent role it now occupies in the U.S. economy. If we look back to 1960, which I would note is the time that our international tax rules were put in place, trade in goods to and from the U.S. represented just over 6 percent of Gross Domestic Product (GDP). Today, trade in goods to and from the U.S. represents over 20 percent of GDP, a three-fold increase, while trade in goods and services represents more than 25 percent of GDP today. While large multinational corporations still dominate U.S. trade, in this era of globalization international markets are increasingly important to small business as well. Even small manufacturers who are not themselves selling abroad, and many of them are today, are more frequently involved directly in the global marketplace by supplying their wares to large businesses who are competing on the international stage.

U.S. tax policy, therefore, has important effects on both small business and the U.S. role in world markets. In both contexts, the basic role of tax policy is to raise needed government revenue in ways that pose as little burden as possible on taxpayers and that keep distortions to private economic decisions to a minimum, based on the belief that individuals and businesses know better than the government how to make the most out of the limited resources at their disposal. To foster the small business economy, this Administration is committed to easing unnecessary restrictions, reducing taxes and streamlining burdens. While it is important for us to work to level all playing fields, we can ensure that our own rules minimize the barriers to the free flow of trades, the free flow of capital that globalization necessitates. And that is something for which we have vigorously worked over the last 3 years.

With these principles in mind, the Administration, with the help of Congress, has taken significant steps to ease the tax burden on small businesses across the board—particularly in manufacturing, especially those producing for the world market but, as well, those focused on the local economy.

In the past 2 years, personal income tax rates have been cut by 3 to 5 percent, relief has been provided for the marriage penalty, the 10 percent tax bracket broadened, and the child credit expanded. Because most small businesses are flow-through entities (S corporations, partnerships, or sole proprietorships) and pay taxes at the individual rates of their owners, these reductions in personal tax rates have also been, in effect, reductions in small business tax rates. These changes have benefited 23 million households who own interest in small businesses in America.

Small business in all forms of organization can benefit from the expansion of small business expensing. The amount of investment that may be immediately deducted by small businesses was increased from $25,000 to $100,000. And the limit at which expensing phases out was lifted from $200,000 to $400,000, increasing the number of taxpayers who qualify for this important simplification, as well as reduction in taxes.

Lowering the dividend and capital gains rates reduces the role of taxes when small businesses are choosing the type of entity in which to operate their business. The partial relief from the double taxation of dividends will make the use of C corporations more available to small business owners and reduce the tax cost to small businesses growing.

Phasing out the estate tax allows innovative entrepreneurs to pass their life's work to their children, not to the government, and not to expend excessive resources on estate planning.

Unfortunately, of course, all these initiatives are scheduled to expire later this decade. Making them permanent would be one of the best things that we could be doing for small business. It would eliminate one area of uncertainty as small business attempts to plan for the future and keep the tax burden as low as possible on this productive segment of our economy. Madam Chair, your proposal, which was incorporated in the Senate Finance Committee bill last week, that the deduction for small business expensing phase out at fifty-cents for each dollar of excess investment, rather than dollar for dollar as under current law, would also improve the provision by reducing the investment disincentive as the deduction phases out.

Although these legislative actions have provided much needed tax relief to small businesses, the complexity of the tax laws continues to plague small business owners. Our tax laws have become devastatingly complex in recent years. Many small business owners are unprepared to deal with this complexity and do not have the resources to hire sophisticated tax counsel or accountants to advise them. Tax law compliance drains the time, energy, and financial resources of small business owners and diverts their attention from the more important goal of building a business.

Recognizing the need for simplification, the Treasury Department has undertaken initiatives not needing legislative action to decrease burdens on small business. For example, last year, the IRS and Treasury issued a revenue procedure that permits small businesses with gross receipts of less than $10 million to use the cash method of accounting. We expect that the revenue procedure will eliminate many disputes that have arisen concerning the use of the cash method by small business taxpayers, allowing those taxpayers to focus on growth, not tax compliance. Another step taken last year was to exempt 2.6 million small corporations from some IRS filing requirements, reducing the burden on those businesses by 61 million hours annually. Treasury is continuing to work with the IRS to find ways to reduce the burden of recordkeeping, filing and complying with the tax laws.

Looking ahead on the international side, many of areas of our tax law are in need of reform to ensure that our tax system does not impede the efficient, effective and successful operation of U.S. companies and the American workers they employ in today's global marketplace. The pending repeal of FSC/ETI, and its replacement with one of the measures currently under consideration in Congress, will bring the United States into compliance with the World Trade Organization's ruling on export subsidies and avoid the possible imposition of $4 billion in tariffs. It will not, however, ensure that our businesses, including small businesses who export, remain internationally competitive or that our tax system fosters efficient business structures and operations.

We must continue to work on legislation that will address a number of issues. Let me just run through these briefly. I have detailed them in my testimony.

The first is the double tax on corporate income. This is a particularly adverse effect on manufacturers, because manufacturers tend to do business in C corporation form. The double tax on C corporations was a particularly adverse effect on the paper industry and they were one of the industries that pushed most hard for the elimination or relief from the double tax. I'd note that today companies in the U.S., businesses in the U.S., small and large, compete in a global marketplace for capital and prior to the tax act earlier this year, the U.S. was the only—one of only three major trading countries that had a complete double tax on corporate income without any relief.

So the tax bill that was enacted earlier this year brought important relief to manufacturers and, in particular, to the paper industry, making the R&D credit permanent.

The President's budget proposes doing so. Research is central to American businesses' ability to compete successfully in the global economy. It results in new processes and innovative products that open up new markets and create job opportunities. American businesses can continue to compete only if they stay at the forefront of technological innovation. The research credit encourages technological developments that are an essential component of economic growth and a high standard of living in the future. The credit should be made permanent to give businesses certainty that they need to plan.

Depreciation: The current system of tax depreciation merits reevaluation. Inappropriate depreciation rules can hinder the competitiveness of our businesses by tilting investment away from profitable areas into less productive endeavors. This can pose a particular burden for large and small businesses in capital-intensive industries such as manufacturing.

The corporate AMT: The corporate Alternative Minimum Tax (AMT) is known in some circles as the anti-manufacturing tax. It is an alternative tax system to the regular tax system. The AMT means that companies must keep a second, or sometimes third, set of books to compute their tax liability. The tax is pro-cyclical, meaning it hits you when you are down and takes a particular bite out of manufacturers because of its pro-cyclical effect. And the adjustments it has for depreciation, which has a particular effect on manufacturers because they are more capital-intensive than other industries, and it limits on that operating losses. And again, the manufacturing trends tend to be cyclical, more than other industries, so it is more adversely affected by things that put limits on its ability to use, in that, operating losses such as the AMT.

The accounting rules: Current law specifies detailed and complicated accounting rules. Complying with these rules can be difficult and costly, especially for small businesses. To relieve compliance burdens, and perhaps reduce taxes as well, consideration could be given to simplifying capitalization rules—which has a particular effect on manufacturers who are required to carry extra overhead in their inventory and the rules regarding long-term contracts. These changes would provide significant benefits to the manufacturers who must expend resources to comply with these rules.

Finally, simplification. It has been observed that "it is difficult to predict the future of an economy in which it takes more brains to figure out the tax on our income than it does to earn it." That is the situation we face. Our tax laws are extraordinarily complex. A recent IRS study of the burden and cost of complexity to individual taxpayers put the burden well in excess of three billion hours per year, and the cost well in excess of $60 billion per year. And that is just the individual side. On the business side the rules are even more complex and the burdens of compliance go even higher. While large businesses can grapple with them, many small- and medium-size businesses simply cannot. The challenge for businesses trying to comply with the law is enormous. It is time for us to undertake a serious effort to simplify our tax rules. We recognize that broad simplification of the tax system will be difficult to achieve, but we believe it important that we remain vigilant against further increases in complexity. As we have written regulations over the course of the last 3 years at the Treasury Department, we've made that a priority. A $1000 tax break that costs a small business $3000 in accountants' fees is no favor to small business.

In conclusion, I want to thank you again for the opportunity to appear before you today.

[The prepared statement of Ms. Olson follows:]

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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TESTIMONY OF PAMELA OLSON
ASSISTANT SECRETARY (TAX POLICY)
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON
SMALL BUSINESS AND ENTREPRENEURSHIP

Madam Chair:

I appreciate the opportunity to appear before you today to discuss current tax issues affecting small business manufacturing in a global market.

Small business and the global market -- two cornerstones of the U.S. economy in the 21st century. The millions of entrepreneurs who spend their time, energy, and resources pursuing ideas, taking risks, and creating value are instrumental to job creation and the growth of our economy. Globalization – the growing interdependence of countries resulting from increasing integration of trade, finance, investment, people, information and ideas in one global marketplace – has resulted in increased cross-border trade, and the establishment of production facilities and distribution networks around the globe. Technology will continue to accelerate the growth of the worldwide marketplace for goods and services. Firms in this global marketplace differentiate themselves by being smarter: applying more cost efficient technologies or innovating faster than their competitors. The returns are much higher than they once were as the benefits can be marketed worldwide.

Small business has been fundamental to the United States throughout our history, but only in recent decades has the global marketplace acquired the prominent role it now occupies in the U.S. economy. In 1960, trade in goods to and from the U.S. represented just over six percent of Gross Domestic Product (GDP). Today, trade in goods to and from the U.S. represents over 20 percent of GDP, a three-fold increase, while trade in goods and services represents more than 25 percent of GDP today. While large multinational corporations still dominate U.S. trade, in this era of globalization international markets are becoming increasingly important to small business as well. Even small manufacturers who are not themselves selling abroad are more frequently involved indirectly in the global marketplace by supplying their wares to larger businesses who are competing on the international stage.

U.S. tax policy has important effects on both small business and the U.S. role in world markets. In both contexts, the basic role of tax policy is to raise needed government revenue in ways that pose as little burden as possible on taxpayers and that keep distortions to private economic decisions to a minimum, based on the belief that individuals and businesses know better than the government how to make the most out of the limited resources at their disposal. To foster the small business economy, this Administration is committed to easing unnecessary restrictions, reducing taxes, and streamlining burdens. In international taxation, the ideal tax system should seek to minimize distortions to trade or investment relative to what would occur in a world without taxes. While it is impossible for the U.S. to level all playing fields simultaneously, we can ensure that our own rules minimize the barriers to the free flows of capital that globalization necessitates.

Small Business

With these principles in mind, the Administration, with the help of Congress, has taken significant steps to ease the tax burden on small businesses across the board, in manufacturing and in other industries, those producing for the world market and those focused on the local economy.

- In the past two years, personal income tax rates have been cut by 3 to 5%, relief has been provided for the marriage penalty, the 10-percent tax bracket broadened, and the child credit expanded. These changes have benefited 23 million small business owners, leaving them with cash for further investments and job creation. Because most small businesses are flow-through entities (S corporations, partnerships, or sole proprietorships) and pay taxes at the individual rates of their owners, these reductions in personal tax rates have also been, in effect, reductions in small business tax rates.
- Small business in all forms of organization can benefit from the expansion of small business expensing (section 179). The amount of investment that may be immediately deducted by small businesses was raised from $25,000 to $100,000, and the limit at which expensing phases out was lifted from $200,000 to $400,000, increasing the number of taxpayers qualifying for expensing.
- Lowering the dividend and capital gains rates reduces the role of taxes when small businesses are choosing the type of entity in which to operate their business. The partial relief from the double taxation of dividends will make the use of C corporations more available to small business owners.
- Phasing out the estate tax allows innovative entrepreneurs to pass their life's work to their children, not to the government.

Unfortunately, all these initiatives are scheduled to expire by the end of 2010. Making them permanent would be one of the best things that could be done for small business. It would eliminate one area of uncertainty as small business attempts to plan for the future and keep the tax burden as low as possible on this productive segment of our economy. Madam Chair, your proposal that the deduction for small business expensing phase out at fifty-cents for each dollar of excess investment, rather than dollar for dollar as under current law, would also improve the provision by reducing the investment disincentive as the deduction phases out.

Although these legislative actions have provided much needed tax relief to small businesses, the complexity of the tax laws continues to plague small business owners. Our tax laws have become devastatingly complex in recent years. Many small business owners are unprepared to deal with this complexity and do not have the resources to hire sophisticated tax counsel to advise them. Tax law compliance drains the time, energy, and financial resources of small business owners and diverts their attention from the more important goal of building a business.

Recognizing the need for simplification, the Treasury Department has undertaken initiatives not needing legislative action to decrease burdens on small business. For example, last year, the IRS and Treasury issued a revenue procedure permitting certain businesses with gross receipts of less than $10 million to use the cash method of accounting. We expect that the revenue procedure will eliminate most disputes concerning the use of the cash method by small business taxpayers, allowing those taxpayers to focus on growth, not tax compliance. Another step taken last year was to exempt 2.6 million small corporations from filing Schedules L, M-1 & M-2, reducing burden by 61 million hours annually.[1] Treasury will continue to work with the IRS to find ways to reduce the burden of recordkeeping, filing, and complying with the tax laws.

Global Marketplace

On the international side, many areas of our tax law are in need of reform to ensure that our tax system does not impede the efficient, effective, and successful operation of U.S. companies and the American workers they employ in today's global marketplace. The pending repeal of FSC/ETI and its replacement with one of the measures currently under consideration in Congress will bring the United States into compliance with the World Trade Organization's ruling on export subsidies. It will not, however, ensure that our businesses, including small businesses that

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1 Other recently implemented burden reduction projects benefiting small businesses include:

- Reducing the number of lines on Schedules D, Forms 1040 and 1041, resulting in estimated burden reduction of 9.5 million hours for 22.4 million taxpayers. (January 2002)
- Eliminating the requirement for filing Part III of Schedule D (capital gains), Form 1120S for 221,000 S-Corporation taxpayers, reducing burden by almost 600,000 hours. (November 2002)

The IRS has also streamlined many of its procedures to make compliance less burdensome for small business taxpayers. A few examples include:

- The establishment of a permanent special group to work with payroll services to resolve problems before notices are issued and penalties are assessed against the individual small businesses serviced by these bulk and batch filers. (October 2002)
- Business filers can now e-file employment tax and fiduciary tax returns, and at the same time, pay the balance due electronically by authorizing an electronic funds withdrawal.
- Business preparers can now e-file their clients' employment tax returns.
- The IRS has continued to improve its Web site to offer its customers the ability to both order, and in many cases, utilize its Small Business Products online.

export, remain internationally competitive or that our tax system fosters efficient business structures and operations. To secure the future success of U.S. businesses on the world stage, we need to look beyond the current legislation and give careful consideration to the following areas.

Integration. The partial relief for dividends and capital gains enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) represents an important step towards removing the double tax on corporate income and lowering the cost of corporate capital. Before JGTRRA, the United States was one of the few industrialized countries that failed to provide some form of integration of corporate and individual income taxes. With this partial integration, investment projects will be more profitable and better able to attract corporate equity capital. Nevertheless, taxes on equity investments in the corporate sector will remain higher than they would be under a fully integrated system. In the context of competitiveness, this may mean that a project that would otherwise be undertaken by a U.S. company, either at home or abroad, is instead undertaken by a foreign competitor. An additional concern is that the present relief from the double tax is scheduled to expire at the end of 2008. Making permanent the present relief from the double tax for dividends and capital gains would help ensure the competitiveness of U.S. companies.

R&D Credit. The President's Budget proposes to make permanent the research and experimentation tax credit. Research is central to American businesses' ability to compete successfully in the global economy. It results in new processes and innovative products that open up new markets and create job opportunities. American businesses can continue to compete only if they stay at the forefront of technological innovation. The research credit encourages technological developments that are an essential component of economic growth and a high standard of living in the future. A permanent research credit would remove uncertainty about its availability in the future and thereby enable businesses to factor the credit into their decisions to invest in research projects. The complexity of the credit creates another source of uncertainty. Taxpayers are often not sure whether particular activities will qualify for the credit, and significant taxpayer and IRS resources are needlessly consumed by controversy. Consideration should be given to simplifying the credit to create greater certainty for taxpayers.

Depreciation. The current system of tax depreciation merits reevaluation. Inappropriate depreciation rules can hinder the competitiveness of our businesses by tilting investment away from profitable areas into less productive endeavors. This can pose a particular burden, for large and small businesses, in capital-intensive industries such as manufacturing. The 2000 *Treasury Report to Congress on Depreciation Recovery Periods and Methods* identified a number of issues that represent potential avenues for improving the tax system, and may warrant further study.

One such issue is that the current system lacks a firm conceptual rationale. For example, it does not reflect inflation-indexed economic depreciation. This means that tax depreciation allowances can deviate significantly from those required to measure income properly and from those that would provide a uniform investment incentive for all assets. A second issue is that the current system is dated. The asset class lives that serve as the primary basis for assignment of recovery periods have remained largely unchanged since 1981, and most class lives date back at least to 1962. Entirely new industries have developed in the interim, and production processes in existing industries have changed. A third issue is that the current depreciation system suffers from an ambiguous system for determining each asset's cost recovery period. This ambiguity contributes to administrative problems, makes it difficult to integrate new assets and activities into the system rationally, and inhibits rational changes in class lives for existing categories of investment. Finally, in addition to these broad issues, the existing system is hampered by a number of narrower controversies, including the proper determination of the recovery period for real estate, the possible recognition of losses on the retirement of building components, and the presence of cliffs and plateaus in cost recovery periods that distort the relationship between economic life and tax life.

Corporate AMT The corporate alternative minimum tax (AMT) is known in some circles as the anti-manufacturing tax. It is an alternative tax system to the regular tax system. (Small corporations with gross receipts averaging less than $7.5 million are exempt from the corporate AMT.) When investments and other expenses are large relative to a company's taxable income, alternative minimum tax may be owed. Corporate AMT payments represent a pre-payment of tax that the taxpayer will get back when and if the taxpayer returns to a sufficient level of profitability.

A significant problem with the AMT that is especially relevant today is that the AMT reduces the stabilizing property of the corporate income tax, raising tax liabilities just when the taxpayer is most troubled economically. In general, tax payments should help stabilize the economy by falling as the economy's performance declines, thereby reducing the impediment taxes place on consumption, investment, and production. The AMT tends to impose an increased tax burden during an economic downturn, which prolongs periods of economic weakness by reducing business activity. During an economic downturn, companies that seek to maintain a constant level of investment and employment are more likely to pay AMT or pay larger amounts of AMT. This is because AMT adjustments and preferences will represent a larger portion of their taxable income than during periods of high profitability.

The AMT also limits the use of net operating losses (NOLs) which tend to increase during economic downturns. The Job Creation and Worker Assistance Act of 2002 temporarily waived the AMT limitation for NOL carrybacks arising in 2001 and 2002 as well as carryforwards to those years. In view of the slow pace of the economic recovery, the President's Budget proposed waiving the AMT limitation for NOL carrybacks originating in 2003, 2004, and 2005, as well as for NOLs carried forward into those years. This change would provide appropriate tax relief for businesses in difficult financial straits.

Another aspect of the AMT is that it limits the use of foreign tax credits. Because the foreign tax credit is intended to ensure that foreign income of U.S. corporations is not double taxed, the AMT's limitation on the use of foreign tax credits should be reconsidered.

Accounting. Current law specifies detailed and complicated accounting rules. Complying with these rules can be difficult and costly, especially for small businesses. To relieve compliance burdens (and perhaps reduce taxes as well), consideration could be given to simplifying capitalization rules and rules regarding long term contracts. These changes would provide significant benefits to the manufacturers who must expend resources to comply with these rules.

Simplification. It has been observed that "it is difficult to predict the future of an economy in which it takes more brains to figure out the tax on our income than it does to earn it." That is the situation we face. Our tax laws are extraordinarily complex. A recent IRS study of the burden and cost of complexity to individual taxpayers put the burden well in excess of three billion hours per year and the cost well in excess of $60 billion per year. And that is just the individual side. The rules on the business side are even worse. While large businesses can grapple with them, many small and medium-size businesses cannot. The challenge for businesses trying to comply with the law - or for the IRS trying to administer and enforce it - is enormous. It is time for us to undertake a serious effort to simplify our tax rules. Treasury recognizes that broad simplification of the tax system will be difficult to achieve, but believes it important that Congress and the Administration remain vigilant against further increases in complexity. A $1000 tax break that costs a small business $3000 in accountants' fees to obtain does no favor.

The complexity is nowhere more evident than in our international tax rules. A reexamination is needed, including of the fundamental assumptions underlying the current system. We should look to the experiences of other countries and the choices they have made in designing their international tax systems. Consideration should be given to fundamental reform of the U.S. international tax rules and to significant reforms within the context of the current system. Again, international simplification is important to small as well as large business. The notion of how to market abroad and how to comply with the tax rules of the country of interest is daunting enough to small U.S. firms seeking to take advantage of globalization without layering on the further complexities of our own country's international tax laws.

In conclusion, Madam Chair, I want to thank you again for the opportunity to appear before you today and discuss the Administration's views on tax issues affecting small business and the global marketplace. We believe it important to continue down the road to tax relief by making the individual tax reductions permanent. In addition we need to continue to simplify the tax rules for domestic and international business and consider other ways, including those I mentioned today, that would improve the global competitiveness of U.S. enterprises, large and small.

Chair SNOWE. Thank you, Secretary Olson.

Let me just follow up with a few questions because obviously, we recognize that we have a serious problem. In fact, I'd say it was urgent and nothing short of a crisis as it affects the manufacturing sector of our economy.

The question is, what can we do now? I know there are a lot of initiatives underway. Things are beginning to happen with the creation of an Assistant Secretary in the Commerce Department. There are reports coming out. There are statements being made, you know, to China about its currency and so on. But the question is, at what point will action be taken and what do we do in Congress to address these issues?

I mean, obviously there has been an acceleration of loss in this segment of the economy and I think it's very troubling when you read reports about the fact it's not only the jobs that we are losing in the terms of the quantity, but it's also in the terms of the quality. The types of jobs we are losing overseas that may be irretrievable in terms of the skills that are lost, and that enhances the capabilities of our trading partners if we lose some of these capabilities.

So it's the quantity, it's the quality, it's the type of capabilities that we are losing that the manufacturers in this country provide. It's really the mom and pop manufacturers. I mean, that's why I thought it was a good approach in the Finance Committee last week to replace the repeal of the extra-territorial income tax with a manufacturers tax break, because it does help that industry that has a disproportionate number of exporters. And, also, because they are the ones that are being adversely affected by unfair trading.

So where do we start? I mean, we've got the Assistant Secretary. We have reports coming out, we've engaged in, you know, 20 roundtables across the country. We obviously understand that there are some serious problems.

We are going to hear from the second panel that maybe the top three problems are: China, China and China. It's a disproportional part of our problem, in the sense that the trade surplus from China in the first part of this year has already increased by 25 percent. Obviously, that is really affecting our abilities in more ways than one. And they still have a number of industries that are state-owned. They are manipulating their currency. They subsidize their industries, and obviously, with the low wages and everything else that they afford their industries, there is no way for our manufacturers to compete on a level playing field. So we'll start with the Commerce Department. What do you expect for action?

Mr. ALDONAS. Well, I was looking at the chart over here and, Senator Snowe—I mean, one of the things, when you look at that chart with respect to jobs lost in Maine, it tells you it's more than just a cyclical phenomena. It's not just the recession and then, now, a slow recovery. And that's really what you are pointing to in terms of the underlying things. And my point in raising that is that we are going to have to address some of the longer-term trends as well as some of the shorter-term things. So I sort of want to divide things up in those two categories.

In the short-term, probably the most important thing we are seeing is an awful lot of pressure from imports because there is no growth abroad that is absorbing that. So that stuff is coming on the market and a lot of it's coming here. China today is actually the assembly point for most of what we used to see out of a number of different Asia countries, which accounts for a lot of the rise in their exports to us. But the fact is, that there are unique things about the Chinese system, as you pointed out, that have to be addressed. So most immediately, what we'll be raising with the Chinese, when Secretary Evans and I are there next week, is our interest in having positive economic relations, but why that has to be a two-way street and what that two-way street means. And ultimately, from my perspective, it does mean, either—you need to make a choice, frankly. Either you are going to ensure that you are playing in the market in a way that we expect to see you play in the market, or you are going to face the consequences.

That is why, in this Administration, 50 percent of the dumping cases that we have taken up have been directed at China. And that will continue to be the case, in my view, as it will probably accelerate. Because my goal is to get beyond waiting for someone to file a petition and go after individual areas like machine tools, like textiles and apparel, a number of these things in the electronics area, and point out where we have the problems.

Now, I have to say, the Chinese are very pragmatic. This is a situation different than I think we faced in the 1980s with Japan. They understand we are their market, and they are very concerned, ultimately, about making sure that people are employed. The good part of the news from China is that they raised 300 million people out of poverty. The bad news is they have 900 million to go. And what that means is they are going to very concerned with employment. We need to represent our interest and make the case to them that, if they want access to our market and they want to see those people employed, there is a model of openness and a market both on the dumping side as well as on trade agreements enforcement.

Second thing, in terms of the longer-term trends, I have to say—and this is the way I want to come back to the point of bipartisanship. If you look at a lot of the costs that have been rising for small business, it's things we have been debating in this country for decades. Energy. There is an energy plan before Congress right now. It's one of the things that we have to grapple with. And we do have to get beyond what I think are static positions that have been developed over time, because you can't have a plastics industry in the United States with the rise in natural gas prices we have right now. And a lot of the manufacturing, in terms of trying, for example, to lift weight out of an automobile, means you are moving from steel into plastics. And you can draw your own conclusion about what that means for small businesses in the plastic molding business throughout the country. So energy prices make a real difference.

It's the same thing on health care. As both of you know, in terms of where we are, given the inflation that we've seen in health care costs, it offsets virtually all the gains that small businesses try and make in raising their productivity. The hardest thing that I think

I saw as I was going across the country was the effort that folks had invested in trying to strip out costs in their own manufacturing operations only to see them erased by what, in effect, was the doubling of health care costs in a very short period of time. Growth helps that, but growth isn't all of that. So we have to tackle those longer-term problems as well.

Providing more focus to what we do in support of manufacturing is important as well. I know we've talked before about the things that we need to be promoting for exports for small- and medium-sized manufacturers. One of the things I intend to do is get us focused much more on what I call a global supply chain initiative, increasing what you are seeing for small manufacturers. The goal may not be to export to China or export to Japan. It may be to export to Toyota and let them take it global as a practical matter. It may be exporting to Wal-Mart and letting them take it global as opposed to them being the seventh largest trading partner of China if they were standing alone as a nation.

So more of our focus inside the Commerce Department in terms of what we do on exports is to make sure we are identifying where our small business can compete, where they find their market niche, where they find the companies that are going to take them global as a practical matter.

There is a number of other things that I know that you have been thinking about, certainly, in terms of the sorts of flexibility we need to see in a job market and in communities, investing communities as they make a transition—that, I think, we need to focus hard on. The effort on trade adjustment assistance you made as a part of the TPA battle was crucial. I think that's important. I think we need to go further and make sure they are integrated with the systems we otherwise have at the Department of Labor. And that's not done yet. So there are a number of things that I think we can be acting off, where Congress, in fact, has their hand on the lever.

Chair SNOWE. Secretary Olson, would you care to comment.

Ms. OLSON. One of the things that's obviously pressing that's on the tax side is the need to bring the tax laws in to compliance with the WTO decision on the FSC/ETI. And I think, as you rightly observed, the Committee mark-up last week—it's really important that we focus on what we can do for the manufacturing sector through the tax laws.

It always seems like there are too many things on our plate for us to handle. One of the things that I have tried to make a priority at the Treasury Department is looking for ways to simplify the rules so that we can relieve some of the dead weight burden that we have on taxpayers in America, particularly small/medium-sized businesses in America.

As I said, I really like coming outside the Beltway to listen to people. One of the things I learned last summer, and one of the discussions I had with a bunch of small businesses, was that—we have a number of provisions in the tax code that try to take small businesses out of the complexities of some of the rules. So, for example, we'll have something that doesn't kick in until you have $5 million in gross receipts or $10 million in gross receipts or something like that that relieves some of that burden. But that, sometimes, some of those exceptions, which are good exceptions, and we definitely shouldn't do away with them. But we should think about whether we need to expand them, because what they do is they function as a ceiling on small businesses' willingness to grow.

At one of these meetings we were talking about the percentage completion of contract method of accounting that contractors have to use and one of the folks in the audience commented that, when he gets to $10 million in receipts for the year, he stops taking on business. Because when he passes that, he's going to have to subject himself to using that method of accounting. And it is such a complicated method of accounting he just doesn't want to do it. So, the compliance costs that we have imposed on businesses with our complex tax rules are something that really deserves a very serious look.

There are so many provisions in the Internal Revenue Code that put a particular burden on manufacturers: the depreciation rules, the AMT rules, even the structure of our R&E credit. The R&E credit is a very complicated set of rules and it causes enormous disputes between taxpayers and the IRS. So do accounting methods for that matter. But the things start with—it's kind of a good idea. Like the notion behind the research credit is that it's supposed to reward incremental increases in research, which is, you know—sounds like a good idea except, when you go to try to put it in practice, what you find is that businesses have to go out and hire special accountants to do special kinds of computations and recordkeeping in order to determine whether or not they qualify for the credit. So going back and taking another look at some of these very complicated rules would be a good way for us to help small business in America and, particularly, manufacturers.

Chair SNOWE. Well, if you look at that chart, not only is it a staggering number of losses over the last decade, there are disproportionate numbers occurring in the last 2-2½ years. So that's what's so stunning. And that's certainly true, I think, of most of the manufacturing jobs that have been lost, including the 3 million jobs during the course of this recession and since then.

And then we have a trade deficit that continues to rise even though we are no longer in a recession. You understand when that happens in a recession, but you don't understand why it's happening now.

And with a loss of jobs, there isn't a day, I don't think, that I pick up the paper here in Maine without finding that another manufacturer is closing the doors. I am going to hear from the next panel—including one that has closed their doors. I mean, that's the problem.

I would say to you and to the President's Administration, develop an interagency task force of some kind with other departments and coalesce around several top ideas that need to be driven now, because I think there is a matter of urgency here. We can talk about a number of issues, but I think we can identify some key issues that we can get done now. Some are longer-term, some are shorter, and I think that we can't afford just to wait for the long-term, as I see it.

With China, their obligations are clear as part of the World Trade Organization. And they have been non-compliant. How long do we go on with this process of allowing non-compliance?

Second, they understand that manipulation of currency is a violation of WTO. How long do we allow that to continue? There are subsidies. They still have state-owned enterprises. I was in China a couple of years ago, and it's staggering. They have intellectual property rights. You walk into a store, and what do they have? CDs and DVDs. And what have they done? They have stolen the ideas and the rights and the music of our industries. And they are doing it over and over again. So, they seize the property rights, then they develop the technology, and then they undercut our industries and they subsidize them. And what do we have? We are losing that technology and that base as well. So, we are going to lose that capability in America. We are close to it now in terms of where manufacturing is.

So, how can we approach it between Congress and Administration, on the short-term, immediately? I know we are doing a lot of things and a lot of things are happening, but I don't know if anything is going to be concluded. I think, frankly, in the foreign sales corporations and extra-territorial income tax—I think it's important to replace it with a lower rate for manufacturers, because it really does identify that segment of the economy that's disproportionately affected by the export tax incentive and it's disproportionately affected by unfair trade practices.

So, couldn't we identify certain things that could happen now, maybe there is an inter-agency task force that can provide an agenda for action within these next 6 months and tell the Congress, this is what you've got to do? On a bipartisan basis, obviously, it can't happen otherwise. In the Senate you have to have 60 votes, the magic 60. Let's get this done. There are things that can be done now.

I know Rod Rodrigue, Chief Executive Officer of the Manufacturing Extension Partnership, a great program with promise, is going to be testifying. As he said in his testimony, we spend more time arguing about keeping $100 million for that program than we do about the $87 billion supplemental. We need to have support for those types of programs. We get the biggest bang for the buck on those programs. So, can we identify the top five issues? What would you say? How can we get some action?

Mr. ALDONAS. Well, I agree with what you are suggesting. That's precisely what the report is designed to do. It really does identify what are the single largest cost drivers on the domestic side and point out the sorts of things we need to tackle those. It also identifies the things that we have to be doing on the international side.

The point I was trying to make earlier, Senator, is that there are things that are so obvious that we are already moving on them. Plainly, in terms of, for example, Chinese imports, we've already started the review within the Commerce Department to look at a range of practices that we don't have current petitions on from industries, but it is absolutely obvious that these things are having an impact on our industry. And so there is no reason for us to wait for a petition. We need to get out ahead of that prerequisite, as a practical matter. Of course, what people will tell you, looking at that, is we are not ahead of the curve right now.

Second thing is, on the currency side. One thing that I do want to make sure, though, that the President gets credit for, is that he understands this issue. And he is the guy who will tell the Chinese. And will be, as of next week—where we have to be on this issue. And it's a fairly simple thing, as you both know. It's sort of like—either we're going to play fair or we are going to have to take action in response. That's really what it boils down to. And Congress, I think, has been enormously patient in the year that China has come into the WTO. We've encouraged them to move in the right direction, but our patience, I think, has worn thin. Just as yours has worn thin on things like intellectual property rights, which are key to our manufacturers.

When we talk about how we are going to succeed in the future, it depends on technology. Well, guess what? That boils down to intellectual property rights, just as you were pointing out. And it does require a vigorous enforcement of the trade laws as well.

Chair SNOWE. Is that the message that Secretary Evans will be taking to China?

Mr. ALDONAS. Absolutely.

Chair SNOWE. I know that Secretary Snow is doing a great job as well, and they both have, as a team, in getting that message across and raising this issue of the manipulation and the pegging of the currency—both with China and Japan. I really appreciate that, because I do think that is a critical issue. But is that the message that Secretary Evans will be taking to China?

Mr. ALDONAS. Absolutely. And let me put it in context. We are essentially on the course of about 3 months of very close conversation with the Chinese over all these issues. It really started this summer with Secretary Snow's trip. The President will be meeting with the President at the APEC meeting. After that Bob Zelik, USDR, will be in China. Secretary Evans will be in China in October to advance U.S. interests and advocate for a level playing field in our economic relations with China. We will have another opportunity to raise outstanding issues during our annual Joint Commission on Commerce and Trade (JCCT) at the end of the year. And what we have identified is a very clear list of actions that we expect the Chinese to take as a part of—in this process. And failing that—that's the point where we need to reconsider what we are doing.

And again, I think the Chinese have been very pragmatic about this. When they say they are defending their own national interest, our job, as far as I am concerned, is to make sure we are defending our national interest. And drawing the line in the sand and saying, frankly, this is what we have to see. Absent that, you understand we will use the tools available to us within the trading system to make sure that the playing field is level.

Now, the optimum way to do this, obviously, is to see change on the Chinese side. I mean, that would be something that would be good for our growth and good for their growth. And that's the message that we really need to bring home to them. But, failing that, they don't leave us many options, to be honest.

Representative MICHAUD. Thank you very much. Great presentation. Just a couple of quick questions. You just talked about, when you look at tax breaks, are you also looking at large corporation benefits—and if they do decide to take their paper machine and move it over to China, or whereever else, whether or not they will lose those particular benefits? There's the long-term problem and the short-term problem.

And when we look at small businesses, those are the ones that will more likely stay in this country. The large corporations, they can afford to move overseas. So are you looking at what effect they have and, if they do move overseas, whether or not we can take those back or—and also, on the short-term.

And I know there is also health care—a 55-cent tax credit for health care. Part of the problem within this rate is that you get affected, because of a shutdown. You are going to have to provide health care and, in a lot of cases, people cannot afford that other 35 percent. So, it's good to have that program there, particularly when you look at an area in Maine—at one time earlier in the year—the unemployment rate is over 30 percent. You just move 30 miles north of the plant that shut down. Thirty miles south, another Chapter 11. And it's real devastating. And I am just wondering if your Department is looking at, in the short-term, how can these programs move forward?

The National Emergency Grant Program is great. The downside of it is, they are not processing those grants within the 30-day time frame.

Mr. ALDONAS. Got it.

Representative MICHAUD. And this has an adverse effect on small business. It actually really does. Using the region as an example, there is no health insurance coverage. These grants are 60 to 90 days of coming in late. And they did have an adverse effect on small businesses because, if someone with no health insurance coverage goes into the hospital, that's been shifted onto the small business—having a huge rippling effect.

So, are you looking at, on the short-term what can be done, particularly in——

Mr. ALDONAS. Congressman, let me take the second one first. I want to draw a distinction, which was implicit in what you were saying, between the social safety net on the one hand and the costs I was talking about for manufacturers, the ongoing costs for manufacturers, because there is no doubt we have to grapple with the safety net side. And I am happy to raise the issues with respect to the NEG grants with the Department of Labor and make sure that we are turning this over as quickly as we can. But I want to underscore that the costs I was talking are the costs that we impose day-in and day-out on operating businesses, that drive them to the point where they are putting people into the social safety net. And, so, without disagreeing with the notion that we have to make sure the programs work when people do fall out of the job market and they do have that protection. At the same time, I think, that we have to focus hard on the costs that may drive companies into that position. And, so, when I talk about the rising health insurance costs, the one thing I want to make sure we are focusing on is a bipartisan solution that is making sure that our guys aren't bearing huge costs, or we are going to have to find an alternative in terms of how we go after this. And I know this is something which both of you know better than I do, in terms of the health care side, in terms of what the options are. But I want to be very conscious of trying to make sure we draw the dividing line about where the effort needs to be for the benefit of the manufacturers that are still operating.

On a tax break side, I really defer to my colleague about the sorts of things the Treasury has underway. But one of the things that I want to do is reinforce for you—the fact that when I go out and talk with manufacturers, they understand that to succeed locally, lots of times, American manufacturers have to succeed globally. And they don't complain about the notion that companies are investing abroad, to manufacture abroad, when they are serving that market. I think the concern is always, when they create an export platform due to subsidies in China, and ship the stuff back and start dumping it back into our market. And what they understand is, is that the code, at least since 1962, have in fact penalized American manufacturing in its ability to be globally competitive.

So, one of the things to be careful about is to understand there are already penalties in the code that we impose on our best competitors in manufacturing. And so, when we think about—what about these guys who are sort of escaping and taking jobs overseas?

We've got a broad dividing line about the folks who have to go overseas to succeed, which means jobs stay here as well. And those who are, simply for tax reasons, going offshore to get the additional tax benefits—which is really the problem you are leading to. And those are incentives that are built in the code that, I think, fall under the rubric of things we need to clean up. Because we shouldn't be providing artificial incentives over there, nor should we be penalizing in terms of trying to succeed in their global manufacturing.

Representative MICHAUD. [Off mic.] There are certain types of paper that are imported from around the world that puts companies in Maine at a disadvantage. I worked at Great Northern Paper Company for 29 years. We made directory paper, 75 percent of the directory paper sold in the United States are imported, 50 percent of which is imported from Canada. When you look at the subsidy that the paper mills in Canada receive from the Canadian government, it puts U.S. firms at a competitive disadvantage. I know there is a process that companies can go through if they feel that they have been hurt by NAFTA. The problem actually is not in that process [inaudible] Department of Commerce. Are you looking at how the Department can assist businesses like Great Northern Paper Co., that have to spend over a million dollars for them to rectify their case in theory—they are not a large corporation, they have only two mills in Maine. Can you tell me if the Department is looking at how they can help businesses move forward without them having to go further into debt and ultimately close down?

Mr. ALDONAS. Yes. Congressman, I am glad you asked, because we are. We have regularly provided what's known as pre-petition counseling, particularly for small manufacturers. Because, as opposed to having to go and do what Pam described, which is hire a law firm in Washington to spend a million dollars to essentially get your case heard, you've got to be able to come to the Commerce Department to understand the particulars and what you would have to go through. My own instinct is we have to go farther than that. That is why I was saying, we need to get out in front of this.

We don't need—if we hear that sort of complaint—and I have got to say, I haven't spent a lot of time with lumber over the years. I have a pretty good idea of what goes on in Canada. If that's the sort of thing, I know the people to call. And that's the sort of thing where I think we should take up for the company with the Canadians, regardless of whether they filed a petition. Right. I mean, this is one of the things where we don't have to wait for that sort of result.

And if there is a concern, that's the sort of thing I do want to hear about. Because it may be that, as in many things, that by getting to the right person on the other side, we can help solve a problem in the short run, rather that having to force someone to go through the whole litigation process that the dumping laws would otherwise entail.

Representative MICHAUD. Trade deficit that we already have, you look at the kind of budget system that we currently have. The U.S. Treasury is looking at almost $7 trillion worth of debt and that is a lot of United States debt. What's going to happen later on down the road when we continue to lose manufacturing at the rate that we are currently losing manufacturing.

Ms. OLSON. Well, I guess I would say that one of the things that I was going to mention, that your comment highlights, is the importance of some of our big trading partners doing more to encourage pro-growth policies. And that's one of the things that Secretary Snow and the President, in the trips that they have made abroad over the course of the last year, have emphasized.

Japan has had a stagnant economy for well over a decade now. Germany, which has been the largest economy and the engine of growth over there, has been stagnant for some time. And so one of the things that they have been focusing on is encouraging those economies to adopt more pro-growth policies. The statistics that I have seen about what's happened with the trade imbalance suggest that a whole lot of the problem stems from the decline in exports on our part, as opposed to increases in imports. And that's because our big trading partners, like Germany and like Japan, have had stagnant economies and, therefore, they are not buying what they used to buy. I think there is a line in Grant's testimony, from former Secretary Summers, on us flying on a one-engine plane. Right? And the one engine that's driving the plane forward is the U.S. economy because nobody else is moving. So, it's really important, for purposes of our addressing our trade imbalance, as well as addressing the health of the U.S. economy and getting it growing again—which, in turn, will affect our budget deficit. That will get those economies growing again so that they become markets for us again.

I think that the President's firmly of the view, and I know that Secretary Snow shares this view, that the best thing that we can do for our budget situation is to get the U.S. economy healthy and strong again. Outside of the manufacturing sector, I think, we are moving in that direction, but there is clearly a lot of room for improvement. And that's the best thing that we can do.

Currently the size of the deficit is unwelcome. And we do need to be focusing hard on making sure that the economy is growing and that we are getting that back under control.

Mr. ALDONAS. Could I just add to that? One of the points that Pam made. I always like to try and find ways to put things in perspective.

For example, on the manufacturing—we are very concerned about it, but one of the things we ought to also acknowledge is the strength of our manufacturing sector. Our manufacturing—we are still the largest producer of exported manufactured goods in the world. Our manufacturing sector, standing alone, would be the fourth or fifth largest economy in the world. Larger, in fact, than China's whole economy. So, I always like to find those things—well, the one about Japan and growth.

The most amusing statistic I heard was that Japan's annual bar tab is larger than the economy of Vietnam. Right. And the reason I say that is because it drives home the point about how much they would add to solving our problems, internationally, including the problem with China, if they would get off their butts and grow. Right? And it's not as if their problems aren't known, just like we know what our problems are and have for some time.

And I have to say that it's with a certain degree of frustration, because we become the dumping grounds for a lot of goods from China, as well as a lot of other places. Precisely because we are not seeing that growth in the rest of the world, as Larry Summers said. And we are flying on one engine. And so there has to be an effort on that side as well. I know that's what the President is going to be focused on when he goes to the G8 Summit in the coming year. It's all going to be about growth, because that is an answer to a lot of this as well. And I never—in focusing on China, I never want to let the other guys off the hook.

Chair SNOWE. No, I agree with that. I think that that is true. I mean there are a host of other countries, obviously, you know—the giants in the world economy, in essence, and, in terms of the numbers as well. And I know that Secretary Evans indicated in a speech last month that he intends to make sure that China honors its commitments. I was just wondering how we intend to go about doing that.

Would this team be one, which I think is a great idea, to address China's unfair trade practices in the manipulation of its currency for example?

Mr. ALDONAS. Sure. In the sense that, with respect to any allegation on the currency side, what you are really talking about is the degree to which that action by the Chinese government, in effect, implies a subsidy to their manufacturers. And that's the core of what we do in this unfair investigation practices team.

But I also want to say that, again, the peg only represents the fundamentals that are going on in their financial system, which is the ultimate subsidy. And that's the sort of thing that we intend to raise with the Chinese. We will be asking them as they go through a process in the World Trade Organization of having to identify all their subsidies. We are going to be asking them for the elimination of the list as well simply listing them over at the WTO. That'll be one of the things that we take up with the Chinese going forward. And it relates to the peg, as a practical matter, because if we can move them past the underlying problems, the peg largely becomes irrelevant at that point.

Ms. OLSON. Might I go back to the Congressman's first question about international tax? I think the international tax area is so complicated it's probably the best illustration in the world of the law of unintended consequences.

If I might give you an example, the shipping industry is an area that we decided we were going to address back in the early 1960s with the changes that we put in place for international tax rules. Back then the U.S. had a very vibrant shipping industry. We identified shipping income as mobile income and decided that, regardless where in the world a U.S. company earned its shipping income, we were going to tax it, currently at the maximum corporate rate. Since then our shipping industry has largely left. I think we still have a strong one in the Caribbean, but that's about it. Otherwise it has gravitated to other places in the world where it is not taxed on a global basis. Indeed, in many cases it's not taxed at all, because it's taxed purely on a territorial basis, and that means that the income that's earned on the high seas doesn't get taxed at all. So, we took a competitive industry and, by subjecting it to tax burdens that the same industry in other parts of the world weren't subject, we did away with our shipping industry.

We've seen the same thing happen in the oil services industry, where much of the income is earned at high seas drilling for oil and so forth. And that industry as well has, to a large measure, dried up in the U.S. in terms of the international operations.

So what we have is industries that have to earn a 35 percent greater return in order to be competitive. And unless there are competitive advantages that allow them to more than make up for that, it becomes very difficult for them to compete. Now that has resulted over the course of the last 20 years or so, in some companies being taken over by foreign companies, some companies moving—as you no doubt have seen the newspapers, over the course of the last couple of years in particular, moving their headquarters, on paper to places like Bermuda, with the argument that they can escape the U.S. tax net. That's a very troubling situation. It suggests that we need to address the underlying fundamentals.

Now, there are some other things tangled up with that, where companies from other countries have learned to strip the U.S. tax base by loading a U.S. entity with debt and then taking interest deductions out of the country. So those are issues that we need to address. And what we need to do is make sure that we've got a level playing field as much as possible for U.S. companies so that they can compete abroad, because that means more jobs for American workers.

I think it's really important to understand another related area is that under those international changes that were made in the early 1960s, we subjected marketing income to current tax in the U.S. that's earned abroad. Well, other companies that are located somewhere else may not pay tax on that income at all, or they'll pay tax only at the rate that is imposed in the country in which they are located. We tax it again, back here, on a current basis. And that marketing income is particularly of concern right now, because that marketing income is income that is earned in selling U.S.-made goods and services abroad. So what we are doing is—we're taxing them on a disproportionate—relative to what their competitors are—and in doing so we put some of our most competitive companies at a disadvantage on a global basis.

Mr. ALDONAS. If I could just follow-up on Pam's point about the shipping industry? It's an interesting illustration, because what you've got is something which is the classic services industry, but it drives a lot of demand for manufactured goods, particularly in places like Maine. If the customers leave, so does the manufacturing industry. When shipping industry leaves, you start to see a decline in shipbuilding and it has a big impact on a State like Maine, as a practical matter.

More broadly, if you think about what happens with China, where they have their own shipping company, it ends up being much more lower cost for them to engage in trade, simply by virtue of the fact that they have a shipping industry in their country. The fact that we don't imposes a penalty on our exports. And, in fact, encourages something that has a dramatic singular impact on a State like Maine as well as a broader effect on all manufacturing in the United States. So, some of the things that you'd get cranked up about, whenever I hear about them from Pam, are things that may not be purely on the manufacturing side. It may be other things that have implications for manufacturing in the United States that we need to clean up as well.

Chair SNOWE. How is Treasury and the Administration going to approach the legislation that we passed last week in the Finance Committee?

Ms. OLSON. Well, the most important thing is for us to bring our laws into compliance with the WTO ruling. So we look forward to working with Congress to seeing that happen. And we, at the Treasury Department, have been working very closely with Committee staff to make sure that we have identified, as much as possible, the issues that might cause administrative concerns, implementation concerns, down the road, to make sure that we have those questions answered as much as possible. So that the legislation, if it's enacted into law, will provide the biggest benefit and greater certainty for both tax payers and for the IRS in administering it.

Chair SNOWE. Well, I hope that the underlying principle would be embraced, to gear things towards the manufacturers, because they are obviously going to be disproportionately affected by the repeal of the export tax incentive. And I hope that will continue to be the principle underlying the legislation. Hopefully, we can do it this year. I think it remains open to question exactly what the action will be in the House to resolve it before we ultimately adjourn this year. But I certainly would hope that we could, because the clock is ticking in terms of our compliance.

There are other issues that are tax-related that could help manufacturers. You were referring to some of them on depreciation, for example, alternative minimum tax. I gather now that the exemption for small businesses is $7.5 million. I am thinking about increasing it to $10 million. Is there an agenda for manufacturers on tax-related issues? I think we need to have an overall agenda for manufacturers. It has to be inter-agency, because it would be a waste if one department is doing one thing, but another department is doing another. And, obviously, what happens in Treasury is, also, as important as what happens in Commerce in these issues.

I am wondering if this agenda will be merged in some way so that we can look at the total picture of what the effect is on manufacturers and see what we can drive through Congress. That's going to be the key issue here. Maybe something can be done administratively and on the trade-related issues, initiating complaints and that sort of thing. But again, we've got to get to the forefront of the Congressional agenda. The train's been leaving the station. I know Secretary Evans, according to a conversation I had with him the other day, says that the focus is jobs, jobs. He has laid out, I think, some very important issues as well. So, I am just worried about time, the agenda, and how this is all going to work, because there are so many issues that we can talk about. The question is what can we get done that is critical, that is going to make a material difference to the manufacturing industry now, right now, in the economy, because manufacturing is obviously where the job losses are occurring and will continue to occur, from what I see.

Mr. ALDONAS. There's two guarantees that I can offer you.

Chair SNOWE. Okay.

Mr. ALDONAS. The first thing is that, whatever is in our report will not be limited to——

Chair SNOWE. When is that report coming out, by the way?

Mr. ALDONAS. Well, that comes to my second guarantee.

Chair SNOWE. Okay.

Mr. ALDONAS. The first guarantee is that it will not be limited to things that the Commerce Department can do. And I know for a fact that whatever I write about taxation, my colleague will be telling me whether it's right or wrong and how to reshape it. But, as a practical matter, this is the inter-agency process on taxes on manufacturing. And I have got a pretty comfortable idea where we need to go and the things that need to be identified on the tax agenda.

Second thing is, I guarantee you, that when I leave Maine today, I'll be going back to my computer to finish drafting the report.

Chair SNOWE. Okay.

Mr. ALDONAS. Because it's on my shoulders. And what I am really hoping—I'll tell you where the draft is. We have laid out the analysis. We've got a good set of recommendations that really are across the waterfront that is in the inter-agency process.

One, I expect that what we'll be doing is going back to what, I would hope, is an ultimate draft to OMB to get it out to inter-agency. Because it covers things from what we can do at the Commerce Department; where USDR has the lead on trade compliance with WTO actions; where Treasury has the lead on things like the exchange rates and on economic growth abroad, as well as on taxes; Department of Education, Department of Labor, Department of Energy, sort of across-the-board. Because it is just so abundantly clear, when you go to talk to manufacturers, just as you said and just as the Congressman said, that the time is now. There are things that we have to do. Number one, to make sure we have the answers right in terms of the problem, but also to convey to manufacturers that the government is moving on the things that will address their problems.

Chair SNOWE. I appreciate that. And I think it is going to be critical that we are all on the same page on those issues in Congress and with the relevant Committees and Chairmen so that this becomes an action-oriented process and a very efficient—well, I know "efficient" and "Congress" is an oxymoron, it doesn't exist in Congress—but in any event, it just——

Mr. ALDONAS. It is a worthy goal. There is nothing wrong with that.

Chair SNOWE. Well, you have to drive that process. Otherwise, things get stalled, and you know where we are in the political scene, and it's going to be very, very important. These key issues are huge. I know you know it, and the Secretaries know it, and the President knows it. If we can all be working on the same page, Republicans, Democrats, Congress and the President, we've at least identified those issues that we can do this year. Otherwise, this problem is just going to continue to magnify. I am not sure I see a reverse here, at least in this part of the economy. It may change, but we can't predicate people's lives and livelihood on hope. We have to come up with some concrete action and I am sure you're getting the same message across the country.

Mr. ALDONAS. Although, you know what's interesting about it is, it's not with the focus that you bring to the issue of small manufacturers, which are consistently the most vibrant part of our economy. It's where the jobs are, it's where the jobs creation is, and it's where the innovation is.

Chair SNOWE. And we know how essential innovation is. According to this article in *The New York Times,* and, you know, again, I don't always believe everything I read but, no matter which numbers you take in terms of the jobs lost to overseas competitors, it is troubling—because, as you say, we are losing our innovation. And that becomes another major structural problem for our economy.

Mr. ALDONAS. It's the key to our future.

Chair SNOWE. It is the key to our future. And then companies find that they can save as much as 50 percent for each job shifted abroad. Then there are the other costs in this State and across the country—health care, workers' compensation in this State and I am sure it's true in other States, tax-related issues, and many others. We have another WTO related issue in the continued subsidy and dumping offset. And one of the bills that I have introduced to address that issue, would have the revenue go back to the affected communities.

Mr. ALDONAS. Well, it won't surprise you that I think it's a terrific idea. A: we have to come into WTO compliance. The WTO's rule that the current system is giving it back to the individual company is something that is inconsistent with the rules on dumping. But investing it in communities that are facing the pressure from trade and are making an effort towards the transition that makes them more competitive, and, therefore, allows them an economic future and a stake in an economic future in the United States is, I think, key. And, so, to the extent that those funds can be applied to those sorts of initiatives, it's all to the good, frankly. It's one of the parts of the program that, actually, at the Economic Development Administration of the Commerce Department, that I am most proud of. They actually provide a lot of value for the money that the public invests in EDA. And as I understand it, under the proposal that's the sort of direction you want to head with the dumping duties. And it would be really reaching out to the people most affected by trade.

Chair SNOWE. Secretary Olson.

Ms. OLSON. One of the things I was struck by when you were talking about finishing things more quickly on short-term agenda and the fact that we need to act now, is the fact that one of the things that we should be focusing on is how we speed up government. I am not going to touch Congress. I'll leave that to you to figure out. But, clearly, one of the things that I have seen over and over again in the course of the last 3 years that I have been at the Treasury Department is that we don't move fast enough to address emerging issues. And so we could contribute a lot if we could find some ways for us to make the governmental processes move more swiftly.

The other thing I wanted to assure is that the Administration is firmly committed to seeing that the benefits that are going to be lost in the repeal of FSC and ETI do, so much as possible, stay with the communities that have benefited from those provisions—so that they are not going to suffer from the repeal of the $50 billion.

Chair SNOWE. I appreciate that. I appreciate all of the comments and your efforts to be here today to express your views on behalf of Secretary Snow, Secretary Evans and the President. I know, based on all the statements that I have read, that they have been active on many of the issues that we've discussed here this morning—and are certainly moving in the right direction. I appreciate the fact that you are here today, and I am grateful for the opportunity for everybody to hear you.

I hope that you will be able to listen to the testimony that is going to be given subsequent to yours, and also submitted to you as well for comments, because they do represent—the next panel represents—a broad array of manufacturers who are doing their level best in spite of all these exigencies and problems that have developed. In fact, one of the companies who is totally excluded from the Asian markets, Winderosa Gaskets, will testify that they can't compete in that market because of the inequities and the barriers and the non-tariff barriers. There are so many issues there. We need to tackle those issues. It's really a matter of urgency.

Mr. ALDONAS. I know you are trying to wrap up, but let me give you one more guarantee.

Chair SNOWE. Yes.

Mr. ALDONAS. One things Secretary Evans has asked me to do when we have the report out is to go back to the 23 cities that we visited to discuss the recommendations with manufacturers—because this is not going to be a static process. This is something where we need their feedback, and we need to be shaping the agenda as we move along. And I'd be happy to add a 24th city to the list for a return, to come back.

Chair SNOWE. Oh, we'll appreciate it. Wouldn't we? Yes.

Mr. ALDONAS. And meet with the same panelists.

Chair SNOWE. Absolutely. That would be terrific. We would welcome that. I appreciate it and I also thank you for all that you've done concerning the softwood lumber issue. I know you are in the process of reviewing the data for the rates again. Will you include the Maritime Provinces in the discussions?

Mr. ALDONAS. The Maritimes are covered under the dumping case and so we are sort of stuck with that part of it. They traditionally have been excluded on the CVD side, the Countervailing Duty side. As we have looked at the policy bulletin that would really—is the negotiation about how the Canadians should be changing their practices. The fact that there is essentially free trade between Maine and Maritimes means that there is very little that they need to do to qualify for the treatment and to be out from under the Countervailing Duty as far as the Countervailing Duty going forward. But we still have to grapple with the dumping side. That is something which I have been working on with my colleagues at the Commerce Department, because I understand sort of the unique trade that goes on between Maine and the Maritimes. And our goal is not to interfere with that when we are trying to grapple with the subsidies provided by Quebec and Ontario.

Chair SNOWE. Right. The minute they don't benefit from those types of subsidies they should not be under that umbrella.

Mr. ALDONAS. Exactly right.

Chair SNOWE. I know you know that, and I hope that we can continue to work on that issue. I should tell this audience that Secretary Aldonas has done a yeoman's effort on behalf of the softwood lumber industry, and we appreciate all that you do. We thank both of you.

Thank you, Secretary Olson, for being here.

[Recess.]

Chair SNOWE. All right, sorry for the delay. Thank you all. May the hearing come to order, please. Thank you.

We have an excellent second panel here as well. I thank you all for being here today.

The second panel consists of small business manufacturers and their representatives who are here today to express not only their individual concerns, but also those shared by small business manufacturers throughout the country.

We have Bruce Pulkkinen, the President and CEO, of Windham Millwork. In addition to testifying in his capacity at Windham Millwork, Bruce is also testifying in his capacity as a board member of the National Association of Manufacturers. The National Association of Manufacturers represents 14,000 manufacturing companies nationwide and is the voice of the industry on all issues facing manufacturers.

Thom Labrie is the President of Auburn Enterprises, formerly Auburn Manufacturing Incorporated, which was located here in Lewiston, was dedicated to developing machinery for converting recoverable waste wood fiber into sellable product. The recent closure of Auburn Manufacturing was a true loss for Lewiston.

LoLisa Bonney is the General Manager of Winderosa Gaskets, a precision gasket producer that exports to 38 foreign markets. It is located in Dixfield, Maine. Winderosa has been extremely successful and has recently received an Export Achievement Award from Commerce Secretary Don Evans.

Rodney Rodrigue is the Executive Director of the Maine Manufacturing Extension Partnership and the President and CEO of MEP MSI. Rod has done such an excellent job with the Maine Manufacturing Extension Partnership that he started MEP MSI in order to help Manufacturing Extension Partnership Centers around the country operate more efficiently and effectively. I am sure they will under your leadership.

Randy Cousineau is the owner and President of Cousineau Incorporated, located in North Anson. A family-owned company that produces lumber and wood chips. Randy's family has owned and run the business for more than 40 years, beginning with his father.

Allen Cairns is the Managing Partner for Creative Mold Company, located here in Auburn. Creative Mold Company is a custom mold maker that manufacturers molds for a number of large and small companies in a wide range of industries.

John Wentworth is the President of Moosehead Manufacturing. Moosehead has facilities in Monson and the Dover-Foxcroft area and is well known for manufacturing high quality furniture.

We also have with us Bernard Featherman, who is here on behalf of the Biddeford/Saco Chamber of Commerce. He is also the President of Southland Steel Corporation and will be testifying as well.

I welcome you all. And I thank you. All of your full statements will be included in the record. We hope you can confine those statements to 5 minutes each and then we will have a discussion, a big discussion.

Okay. Bruce, we'll start with you.

STATEMENT OF BRUCE PULKKINEN, PRESIDENT AND CEO OF WINDHAM MILLWORK, INC., BOARD MEMBER OF THE MAINE MEP, FLORIDA MEP, ARIZONA MEP, AND NEW MEXICO MEP, AND NATIONAL BOARD MEMBER OF THE NATIONAL ASSOCIATION OF MANUFACTURING

Mr. PULKKINEN. Thank you. I would like to begin by thanking Senator Snowe and the rest of her Committee for inviting me to participate today. More importantly, I thank her for holding these types of events so that the manufacturing community has the opportunity to express their concerns, and to thank her Committee for the positive changes they are attempting to make.

I wear several hats today. My company, Windham Millwork, is a 47-year-old family manufacturing business started by my dad. We build beautiful products from wood, with our market being predominately architectural woodwork and cabinetry for the education, health care, and corporate construction markets. My second hat is that I sit on the Manufacturing Extension Partnership boards in several States. The reason I do that in several States is because I am truly committed to that effort that the Manufacturing Extension Partnership corporations do in the various States. Finally, I sit on the board of NAM as a small manufacturer and spend a good deal of time trying to influence policy changes that would benefit small- and medium-sized manufacturers.

Small businesses today face challenges that are, quite frankly, overwhelming. I would like to relate how some of those challenges have affected our company, discuss what we have been able to do to meet them, and what the new and improved manufacturing environment would look like if we could influence you, our bipartisan leadership, to create it.

The challenges we see in our company are similar to those found by most of the NAM small- and medium-sized manufacturers.

Challenge Number One: How can we grow and re-invest in our company when more than 50 percent of our profit flows out of the company in the form of taxation, Federal, State, and local taxes?

Our most serious impediment to growth is the fact that growing in a small company really relates to cash flow. Other than from bank debt, the cash flow for small companies comes from profit. In our company, after we have rewarded our employees with year-end bonuses and have paid the 50 percent of our profit in taxes, we quite frankly are left with the bare minimum needed to maintain the status quo. We can reinvest in those things that are wearing out, but we really cannot expand and grow.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed us to better afford the purchase of a new high technology piece of equipment, due to the accelerated depreciation section of the act. However, and this is the key fact for me, in order to really generate small business expansion, you folks need to provide much more in terms of tax relief and credits. The first year write-off should be a minimum of $500,000—again, these are my opinions—so, a minimum of $500,000. One small piece of equipment for me is a quarter-of-a-million dollars to make that investment. So if I want to replace or to expand and put two pieces of equipment in, I'd like to be able to maximize my first year write-off.

And years ago we had a thing known as an investment tax credit, direct tax credit for reinvesting in one's company. Those two key things for me are probably the most important things that I could see as a company that would allow me to expand and to grow—and not just have to sort of maintain the status quo.

One only needs to look to our north to find a country that values its manufacturing base and does the things it needs to do to protect and help them to succeed.

The first year accelerated depreciation and investment tax credit should also include investments made for training and for research and development. Was the Tax Act too little, too late for American manufacturers? It may be too little, but if folks in Washington can react quickly enough, I don't think it has to be too late.

Challenge Number Two: How do we get better at what we do so that we can compete with foreign competitors on the current uneven playing field?

It is painfully clear that countries like China do many things that created the unfair playing field we have now and, as a result, we're seeing unprecedented increases in our trade deficit with China. A lot has been said about this today, and I am going to skip a lot of what I might have said prior to hearing previous testimony, but there are two issues here. Level the playing the field if possible, but more importantly to me, it's to provide American manufacturers with the tools we need to compete.

In terms of leveling the playing field, our leaders must play hardball under the WTO rules with China. And I am very happy to hear Chairwoman Snowe allude to that. I think it's time to play by the rules or they don't get to play in our field. The NAM has been working on this in several areas and it will take a strong will from those who negotiate for us in the WTO arena.

Most importantly we need to slow and reverse the trade deficit with China. Today it just passed $100 billion. At its current pace will exceed $300 billion in 5 years. Our manufacturing base will be beyond the point of no return by then. I firmly believe that. I think our base will be gone in that 5-year period if we have not stemmed the tide of the deficit. I am afraid that we will be unsuccessful to some degree in controlling the playing field issue but, and this is the key again, to me, we can control what we do at home.

I will switch hats for a minute to my company. Today's discussion is not about Canada, but it was competition from Canada that helped our company realize that we better get a whole lot better at what we do if we were to survive. With the strong U.S. dollar and the weak Canadian dollar a couple of years ago, we began to see much of the business begin to go to the Canadian woodworking firms.

I began to explore what might be out there for outside services to help us improve our competitiveness. My familiarity with MEP and our State Governor's Training Initiative allowed me to partner with them to train nearly our entire staff in one way or another. We leveraged the training funds with our own funds in order to hire MEP and other consultants to help us get leaner, allowing us to do more with what we had today. With MEP's help we began a transition that is ongoing today and will continue as we move forward. To make a long story a little shorter, we were able to grow this year so that we will finish nearly 35 percent over last year—in the same plant, with the same people building the same products. Without being able to leverage the help we received from the State and MEP with our own funds, this process would have been impossible to begin, let alone finish.

Every year, companies who have benefited from MEP services travel to Washington to support the program and, despite receiving bipartisan support, there is always a battle to maintain the program at the current level. This is a $104 million expenditure that seems to take as much debate as we are seeing today on the $87 billion needed to rebuild Iraq. If we want some impact in this country, take a portion of that $87 billion and invest it in American manufacturing through tax incentives, training help, and better access to research and technology. MEP dollars provide a tremendous return in terms of the Federal investment. The other tax incentives will do the same.

And I am running out of time, so I am going to skip to the very end. I think that this is a case of preaching to the choir, but this fifth and final point that I want to make really encompasses all that I have said earlier. My father told me a very long time ago that what our company does is extremely important. He also said that if we employ good hardworking people and we produce the highest quality products at a fair value, we will be successful. He taught me that we were in an honorable profession and that manufacturing was the key to any country's success. The reason, he said, is that we take relatively inexpensive natural resources and we add value. It is the added value that drives the economy—not more lawyers, not more stockbrokers, and not more lawmakers. When we import products from outside our borders we are not really importing, we are really exporting the wealth in this country. And it does not come back. When we produce our own products we are creating wealth, and when we export them we are importing the wealth of our trading partners. This is a very clear concept. We need to make something to increase value, and we need to export to create wealth in this country.

To begin to change the trade deficit and to begin to gain back manufacturing jobs it will take all of the changes in taxation, technology, and training our leaders have the courage to enact. The rest is up to us as manufacturers.

Thank you.

[The prepared statement of Mr. Pulkkinen follows:]

U.S. Senate Committee on Small Business
428A Russell Senate Office Building
Washington D.C. 20510

Testimony for field hearing entitled "Small Business Manufacturing in a Global Market"
October 9th, 2003

Bruce W. Pulkkinen
President, CEO, and Owner of Windham Millwork, Inc.
Board member of the Maine MEP, Florida MEP, Arizona MEP, and New Mexico MEP
National board member of the National Association of Manufacturers

I would like to begin by thanking Senator Snowe and the rest of her committee for inviting me to participate today; more importantly, I thank her for holding these types of events so that the manufacturing community has the opportunity to express their concerns and to thank her committee for the positive changes they are attempting to make.

I wear several hats today. My company, Windham Millwork, is a 47 year old family manufacturing business started by my dad; I am the second generation. Recently back from college, my son BJ represents the future of our company as the third generation. We build beautiful products from wood with our market being predominately architectural woodwork and cabinetry for the education, health care, and corporate construction markets. My second hat is that I sit on Manufacturing Extension Partnership boards in several states. The MEP organizations are a critical link in the future of small manufacturers in this country. Lastly, I sit on the board of NAM as a small manufacturer and spend a good deal of time trying to influence policy changes that would benefit small and medium manufacturers.

Small businesses today faces challenges that are, quite frankly, overwhelming at times. I would like to relate how some of those challenges have affected our company, discuss what we have been able to do to meet them, and what the new and improved manufacturing environment would look like if we could influence you, our bi-partisan leadership to create it.

The challenges we see in our company are similar to those found by most of the NAM small and midsize manufacturers:

Challenge #1
How can we grow and re-invest in our company when more than 50% of our profit flows out of the company in the form of taxation, federal, state, and local?
Our most serious impediment to growth is the fact that growing can only be achieved if you have the cash flow to do so. Other than from bank debt, the cash flow for small companies comes from profit. In our company after we have rewarded our employees with year end bonuses and we have paid the 50% plus cost of taxes on the remaining profit we quite frankly are left with the bare minimum needed to replace worn out

equipment and to maintain the status quo. We have nothing left to modernize, to expand, to do training, or to provide the cash flow to support growth in sales.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 allowed us to better afford the purchase of a new high technology piece of equipment, due to the accelerated depreciation section of the act. However, and this is the key fact for me, in order to really generate small business expansion, you folks need to provide much more in terms of tax relief and credits. **The first year write off should be a minimum of $500,000 and you should look to introduce the idea of rewarding new business investment. A 15-20% direct tax credit combined with lower tax rates** in general would provide a company with the ability to afford the typical down payment associated with new equipment or plant expansion. One only needs to look to our north to find a country that values it's manufacturing base and does the things it needs to do to protect and help them to succeed. The first year accelerated depreciation and investment tax credit should also include investments made for training and for research and development. Was the Tax Act too little too late for American manufacturers? It may be too little, but if you folks react quickly it does not have to be too late.

Challenge #2
How do we get better at what we do so that we can compete with foreign competitors on the current uneven playing field?
It is painfully clear that countries like China do many things that created the unfair playing field we have now with the result being unprecedented increases in our trade deficit with China. They do not treat their people with dignity, their workers are poorly compensated, they hold their yen at artificially low levels, they knock off our products and industrial secrets, and they quite frankly break nearly every rule under the WTO agreements. They do all of these things, yet it is the good old USA that has been called to task because of FSC and ETI. Either consciously or sub-consciously our government has decided that low cost Chinese knock-offs are better for our country's economy and consumers than higher priced domestically produced products. If our leaders put the same compassion into play for our manufacturers that we exhibit for countries around the world we could see a new industrial revolution in this country. Our population would have the opportunity to purchase competitively priced American products with money they earned while being gainfully employed in one of our manufacturing companies. **There are two issues here; level the playing field if possible, but more importantly provide American manufacturers with the tools we need to compete.**

In terms of leveling the playing field, our leaders must play hardball under the WTO rules with China. The NAM has been working on this in several areas and it will take a strong will from those who negotiate for us in the WTO arena. The value of the yen must float on the world market and not be set arbitrarily low by the Chinese government. We need to assure that our exporting companies are taxed in the same way as their competition. We need to trade with countries that demonstrate that they treat their own people with dignity and not oppression. We need to protect our proprietary technology and eliminate illegal knock-offs. I am afraid that we will be unsuccessful to some degree in controlling the playing field issue, but, and this is the key, we can control what we do at home.

I will switch hats for a minute to my company; today's discussion is not about Canada, but it was competition from Canada that helped our company realize that we better get a whole lot better at what we do if we were to survive. With the strong US dollar and the weak Canadian dollar a couple of years ago we began to see much of the business we enjoyed previously begin to go to the Canadian woodworking firms. I began to explore what might be out there for outside services to help us improve our competitiveness. My familiarity with MEP and our state Governor's Training Initiative allowed me to partner with them to train nearly our entire staff in one way or another. We leveraged the training funds with our own funds in order to hire MEP and other consultants to help us get leaner allowing us to do more with what we had today. Although we enjoyed a great reputation locally and had been relatively successful, we saw our business drop by nearly 15% from 2001 to 2002 and we needed to make some changes. With MEP's help we began a transition that is ongoing today and will continue as we move forward. We took a look at how we did things from estimating to installation and began the changes that would allow us to grow without expanding our infrastructure. To make a long story a little shorter, we were able to grow this year so that we will finish nearly 35% over last year in the same plant with the same people building the same products. Without being able to leverage the help we received from the state and MEP with our own funds, this process would have been impossible to begin let alone finish.

Every year, companies who have benefited from MEP services travel to Washington to support the program and despite receiving bi-partisan support, there is always a battle to maintain the program at the current level. This is a $104 million dollar expenditure that seems to take as much debate as we are seeing today on the $87 billion dollars needed to rebuild Iraq. If we want some impact in this country, take a portion of that $87 billion dollars and invest it in American manufacturing through tax incentives, training help, and better access to research and technology; MEP dollars provide a tremendous return in terms of the federal investment. The other tax incentives will do the same.

Challenge #3
How can we possible absorb 20 and 30% annual increases in the cost of health, workers comp, and general liability insurances and remain competitive on a national or international basis?

The answer is that we cannot afford to for very long. In our company we faced a 21% increase in health care this year. We cannot afford it and neither can our employees. To maintain coverage and the plan we have, I decided to have the company absorb the bulk of this increase; however, our company will not be able to do that again and will need to look at reduced coverage and higher deductibles. Will tort reform be the answer? Although it is not reasonable to expect the insurance world to become rosy with tort reform, it is critical that we begin the reform process to the point where it begins to make sense in a moral and fair way. Again NAM is working hard with Congress to make some of these changes and it will take a few more members of Congress to forget that they are lawyers to have any real progress in this area. I hope that this can be accomplished.

Challenge #4
What can be done to offset the costs to small manufacturers brought about by the FSC and pending ETI changes to the tax structure?

Although my knowledge about how the ETI works is limited to what I have read and is a very complex issue on paper, the bottom line is that should ETI go away it is critical that it be replaced with something that is WTO friendly while maintaining a level playing filed for manufacturers who export. This is just one more way in which our leadership needs to lead the way to improving the environment for America's manufacturers.

Challenge #5
What can we do to convince those who make our laws and decide our tax burden that American manufacturing is the backbone of our economy and that without a sound and growing manufacturing base we are setting our economy up to fail?

I think that this is a case of preaching to the choir, but this 5th and final point that I want to make really encompasses all that I have said earlier. My father told me a very long time ago that what our company does is extremely important. He also said that if we employ good hardworking people and we produce the highest quality products at a fair value we will be successful. He taught me that we were in an honorable profession and that manufacturing was the key to any country's success. The reason, he said, is that **we take relatively inexpensive natural resources and we add value; it is the added value that drives the economy**... not more lawyers, not more stockbrokers, and not more law makers. **When we import products from outside our borders we are not really importing – we are really exporting the wealth in this country and it does not come back. When we produce our own products we are creating wealth and when we export them we are importing the wealth of our trading partners. This is a very clear concept**. We need to make something to increase value and we need to export to create wealth in this country. To begin to change the trade deficit and to begin to gain back manufacturing jobs it will take all of the changes in taxation, technology, and training our leaders have the courage to enact. The rest is up to us as manufacturers.

Thank you for the opportunity to speak this morning.

Chair SNOWE. Oh, thank you Bruce.
Thom.

STATEMENT OF THOM LABRIE, PRESIDENT OF FORMER AUBURN MACHINERY, INC., LEWISTON, MAINE

Mr. LABRIE. I want to thank you for the opportunity to speak here, but since I only have 300 seconds to try to put together a meaningful message, I'll get moving along.

Auburn Machinery was started 27 years ago for the purpose of developing, manufacturing and distributing equipment to the sawmill and the woodworking industries. In order to remain viable, we aggressively developed new products continually and focused heavily on generating some new technologies to increase the products' revenue and value—adding job opportunities out of every tree harvested but, specifically, out of already harvested forest resources.

Auburn was a small company, employed 20 people, paid above-average wages, provided a comfortable and friendly small company working environment, provided flexible hours to meet employees' needs, provided excellent health insurance programs, contributed about 25 percent or more to the 401K and retirement plan, made financial contributions to our employees further education and really had little employee turnover in 27 years.

Unfortunately, this year we had to close the company down. A lot of reasons for the company's demise, but some of the contributing factors were: the recession; the immediate and long-term fallout of 9/11; the war with Iraq; postponed equipment buying decisions by nervous owners and managers; the high cost of doing business in Maine. We know Maine is the 50th worst State to start up and run a business; and a problematic product liability system which affects equipment manufacturers right between the eyeballs. But when you get down to the main problem, Auburn Machinery is a classical example of the trickle-down effect of the de-industrialization of America.

The closing down of wood processing operations all over the country leaving few potential customers for Auburn's products and services. And simultaneously, through plant closing, dumping thousands of machines onto the market, through plant liquidation sales, at $0.10 to $0.20 on the dollar.

The other half of it is, really, competing against well-funded, Chinese industries that use direct and indirect distributors to sell "Cheap Chinese Copies" (CCC) of our products, often, our own proprietary equipment.

Now, most of the rest of what I had written has been covered already, so I did a quick little rewrite. And getting down to some of the needs, some of the changes that I think would help.

First, looking at entrepreneurs in general. They need access to R&D funding, unquestionably, if we are going to drive industry forward. And we need better access to affordable investment capital. There needs to be access to funding to develop merchandising programs to bring new products to the marketplace.

We need copy artist protection. Of the last trade shows we attended, the Chinese were all over our equipment. At the Atlanta IWF show in 2002, within 10 minutes of unloading our equipment, the Chinese were in our booth looking closely at our new products.

At other shows, they distract us, they do all kinds of things to get their people access our equipment. And in one case in Las Vegas, they sent in American businesspeople to get all the information out of us to give it back to them. We decided then we had to cut back on trade shows to stop making it so easy for these copy artists to get hands-on access to our products. Trade shows more and more are working against new product developers in this country. So, this is a battle that needs to be dealt with to help entrepreneurs.

We really need to enforce the existing anti-dumping rules and we need to force a level playing field related to safety, health and environmental issues from offshore competitors.

On the Maine forest products industry side, this is where we have been involved traditionally, and are more involved today than ever. The industry in Maine, which is a critical natural resource base industry for this State, needs the resources to unite this sector into a single efficient entity. Right now it's a very, very fragmented industry, and I am using the word industry loosely. It needs the resources to develop cutting edge products and develop programs focused on value-added products. There needs to be created an aggressive merchandising program to promote Maine-made wood products. It needs help to develop the "wood is good" message to educate students and consumers about the true story about the economical and environmental benefits of wood—the environmental value and benefits that wood provides as a manufacturing and building material.

In the end, looking at small business, Auburn Machine was a 20-employee company, but it provided the primary and secondary woodworking, the de-construction and the recycling industries with cutting edge technologies, in order to improve their viability and environmental performance. Auburn's proprietary equipment is today being used from Canada to Chile, and from California to around the globe to Siberia. Over the past few years, the company has won numerous awards for its innovative technologies and proprietary wood recovery equipment. I am making this point to show the potential broad-based effects of a small company in this country. It's propriety wood recovery and value-added technology is currently being used by the Army Corps of Engineers to reduce their volume of solid and hazardous waste materials by up to 90 percent in the disposal of military buildings on closed bases around this country—potentially saving the Federal Government hundreds of millions of dollars in hazardous waste disposal fees and unknown levels of hazardous landfill liability for generations to come.

Small companies create revolutionary changes. Consider the ramifications of the first automobiles and planes that were being developed in bicycle shops, and the computer being developed in a garage in California.

In conclusion, what we get down to is this. We have to stop studying and reviewing the issues that were discussed here today. We know the reality. We've got to deal with it. We have to start enforcing fair playing rules and we have to do it now. The problem that we have is because of where we've allowed ourselves to go through the de-industrialization process. We have less leverage every single day to use a big stick. We've heard about the Chinese buying American debt. Imagine the leverage that that tool is on our economy as that situation grows.

And in closing I will say, if I have one thing that I am the most concerned about its not the painful economic and social consequences of de-industrialization as much as it is the national security issue. No country can remain secure and sovereign and no economy can remain healthy and viable when they are forced to depend on foreigners, friends and foes alike, for food, clothing, parts for cars, boats, trucks, computers, and most other goods that keep our system functions and our defenses operational. We've put ourselves in an extremely dangerous situation, and the longer we dance with it, the worse it's going to get.

Thank you.

[The prepared statement of Mr. Labrie follows:]

Senate Committee on Small Business and Entrepreneurship
Field Hearing entitled
"Small Business Manufacturing in a Global Market"
Thursday, October 9, 2003
Lewiston-Auburn, Maine

Materials submitted by:
Thom Labrie, President of former Auburn Machinery, Inc., Lewiston, Maine

Auburn Machinery Overview

Auburn Machinery Inc. was a 27 year old company located in Lewiston, Maine
It developed, manufactured and distributed equipment for the sawmill and woodworking industries.
The company aggressively invested in developing trend setting technologies and educational programs for generating more products, revenue and value adding jobs out of already harvested forest resources
It's trend setting concepts, cutting edge products and innovative educational programs facilitated the company receiving over 20 awards, recognition and research grants from private foundations, state and federal agencies and industry trade associations

Auburn employed 20 people
Paid above average wages
Provided a comfortable and friendly small company working environment
Provided flexible hours to meet employee needs
Provided an excellent health insurance program
Contributed a 25% match on a 401K retirement program
Made financial contributions towards further education for employees
Had little employee turnover in 27 years

Auburn's proprietary equipment is today working from Canada to Chile and from the west coast to Russia
It's proprietary wood recovery and value adding technology is currently being used by the Army Corps of Engineers to reduce their volume of hazardous waste materials by about 90% in the disposal of military bases across this country, potentially saving the federal government hundreds of millions of dollars, and long term hazardous waste landfill liability, in the process.
After 27 years in business, and staying aggressively focused on new product development programs, the company was forced to close in June of this year

Reasons For Company Demise

Contributing factors;
The recession
9/11
The war with Iraq
Insecurity about the economy amongst business owners and managers in relation to capital equipment investing
Difficulty in getting the wood products industry to invest in wood recovery asnd value adding programs
High insurance costs
High cost of doing business in Maine
(# 50 worse state to start up and run a business / MSN poll)
A problematic product liability system

Main factors:

The closing or downsizing of wood processing operations all over this country, leaving far fewer potential customers for Auburn's products and services.
The difficulty of competing against 1000's of used machines being dumped onto the market through plant liquidation sales, and being sold at $0.10 to $0.20 on the dollar.

Competing against "Cheap Chinese Copies" (CCC) of our products for most any potential sale of new wood processing equipment, which are being aggressively sold through direct and indirect channels.

Beyond the unfair competition faced from China,
They aggressively tried to inspect every new product we took to trade shows
At the Atlanta Show, they were in our booth in less than 10 minutes after unloading our equipment.
In Las Vegas they used white Americans to secure product info from our sales staff
In Richmond, they distracted us while their engineer inspected our new recovery technology

Conclusion:

Each manufacturing sector jobs supports approximately 4 other jobs in the economy
A 100 employee plant closing effects 500 jobs total
Auburn's demise is the trickle down effect of this countries de-industrialization trend
Without an innovative, intelligent and dedicated effort to stem the flow of plant closings, countless other well paying jobs with good benefit packages will be lost across this country
Without government support to stimulate a new generation of R&D programs and entrepreneurship, we will see our historically solid economic foundation blocks continue to erode, leaving our country dependent on a weaker and weaker foundation to survive the more competitive conditions in the rapidly changing global economy
In Maine, for example, without re-vitalization of our forest products industry, many rural communities will suffer even greater economic and social problems than they have over the past few years.
And, worst of all, this erosion of our industrial base, the unique system that industrious Americans devised to provide generations with the self sufficiency required to maintain a free and economically viable society, will turn America into a nation extremely dependent on offshore suppliers, friend and foe alike, for the essential goods necessary for our survival.

Yes, the de-industrialization of America poses potential severe economic and social consequences, but the real threat lies in a wide range of pending national security problems facing our children and grandchildren.

sustain our way of freedom and country and provide us with the security and of self sufficiency for many generations, improve opud will economic
, Challenges for Maine, and the rest of the country's Wood Products Industry:

Chair SNOWE. Thank you. Thank you Thom. Well said. I am sorry that you had such an unfortunate experience.

Mr. LABRIE. It's the price of being in business.

Chair SNOWE. Yes. Well, we regret that. I understand what it took for you to run the business with forces beyond your control. LoLisa.

STATEMENT OF LOLISA BONNEY, CFO AND GENERAL MANAGER, WINDEROSA GASKETS, DIXFIELD, MAINE

Ms. BONNEY. I don't really think you need me here. Between these two and your first panel, I think, really, you have a really good perspective of the problems of small business. Thank you for you efforts and thank you for your interest in this. I am kind of looking at, in the last 20 years that I have been in small business—we are becoming like the spotted owl. And we don't want to become an endangered species. We need help.

I am General Manager of Winderosa Gaskets of Peru, Maine. We manufacture small engine gaskets for snowmobiles, personal watercraft, dirt bikes, ATVs, and lawn and garden equipment. And we're in what you might call a remote corner of a remote State, but we call it the beautiful foothills of western mountains. I am responsible for distribution of all our products. I am not a professional speaker.

Chair SNOWE. Oh, you are doing just fine.

Ms. BONNEY. Running a business is challenging enough, particularly when you are in remote locations in Maine.

The subject of foreign trade is near and dear to us, since about 45 percent of our total sales volume comes from exports, and that's a percentage that has held pretty constant for the past 4 or 5 years. The company was founded in 1982, and exports have been a significant part of our distribution since about 1985.

We distribute to nearly 40 countries all over Europe, Australia, New Zealand and New Guinea. One of our big growth markets is the fact that, with our dirt bike line—and lot of foreign countries, like in Europe, and a lot of these countries—like there are more cars per household than there are people. It's transportation. So that's a huge growth market for us. Our sales have grown since 1982 from about $50,000 to about $2 million, our annual sales today.

Exporting has been such an essential component of our success that we have been privileged to have received several awards. We received the Small Business Exporters from the U.S. SBA in 2000, and just last month we received the U.S. Department of Commerce Export Achievement Award from Secretary Evans when he was visiting Maine last month.

I think we've demonstrated the potential for international trade from such a small and relatively remote community as ours. But our success on the global stage may have started coincidentally, when two people from Sweden showed up at our door with white suits and wanting to buy our products and couldn't speak English—because they tracked us down. Today we are very strongly committed to that export trade. We do whatever is required to be successful with that concept. We participate in a variety of trade shows to attract international buyers here in the States—in places like Cincinnati, Indianapolis and Louisville. Actually, one of my partners is in Las Vegas right now working at a show. And abroad in places like Cologne, Germany. We also work very well with the Maine Trade Center in Portland and the Department of Commerce that is situated there. It's helped us a lot.

Being an efficient exporter means that we must first be as efficient as possible in our own production operations. As soon as we moved to Peru about 7 years ago, from our Dixfield location where we worked for 15 years. When we got moved into our facility, one of the first things we did is—we got lined up with MEP and they worked with us on a continuous-flow manufacturing program and they helped us achieve our ISO 9001 Certification. And that has been very beneficial too—not only running our company more efficiently, but getting more foreign sales that we're looking for.

An essential part has been our commitment and growth of understanding of logistics management—a concept which is becoming increasingly important in domestic business as well. It is absolutely vital for international success. Many smaller firms consider the time and energy spent in logistics of efficient distribution may be an additional cost, but we believe it is critical to our profitability. Freight options from Peru are limited. Whoever Boise, which is now Meade, and International Paper has for trucking, that's who we get. When they change, we have to change contracts, you know. That's just where we are. But with where we are and our customers so far-flung, we must really concentrate on the most cost-effective means of delivering our goods to where they need to be, when they need to be there.

In addition to the products we develop for the after market, we are mindful of the fact that a good part of our gaskets are ultimately used on original equipment, so it's going right into the original equipment—like in Bombardier, Ski–Doo, and Sea–Doo. We sell original equipment to them, for example. So our role is that of a sub-tier supplier in sometimes sophisticated and geographically dispersed supply chains—makes it kind of difficult.

Ultimately, our business succeeds relative to the success of the supply chains of which we are a part, so it is in our interests, as well as those of our customers, that we do whatever we can to ensure the supply chain functions smoothly—and that, from the perspective of the end user, it is completely seamless and transparent.

Doing international business from Peru, Maine does present some challenges and some expense that some competitors elsewhere around the world do not experience. We remain confident, though, that to the extent we are playing on a relatively level playing field, we can compete effectively. We have not been able to withstand specific challenges from less expensive offshore competitors over the years. Some years ago, the gasket market was flooded with products from Italy, which proved after time in the field to have been of poor quality, inferior materials, inadequately fabricated. It took years for the industry to comprehend the magnitude of this problem. And then it took additional time for those poor-quality goods to be removed from the marketplace and for machines in which they had been installed to be retrofitted.

So a big measure of our confidence stems from our consistent history of being able to produce higher quality gaskets than those available from other sources. As of about 3 years ago, we lost our market share in Singapore and Malaysia due to Chinese imports that we can't compete with.

I see I am running out of time.

One of our largest markets is Canada due to the snowmobile business that we do and we have been pretty successful up there. Some of our Canadian distributors' orders for the pre-season were quite soft this year—to the extent that I had to lay off two people in July. And we just learned that, when some catalogues went out, that they have begun buying cheaper gaskets from a manufacturer in China. They've imported a line so that now we are facing it.

We are clearly not afraid to compete on the global stage. It's where we belong. We have demonstrated that, on a reasonably level field, we can compete efficiently. And while we have not yet experienced the pressures of offshore competition that have impacted other U.S. manufacturers, we need to take action now to withstand threats to our market.

We need to preserve the ability to deliver superior products, to be innovative and the cutting edge of the requirements of our specific markets.

We need access to infrastructure in this country that is supportive of manufacturing in general and seamless functioning of complex supply chains. There seems to be a negative connotation when people talk about industrial backing or infrastructure for industry.

You know, in the paper the other day, they were talking about the jobs they would be supplying for the stem research for the $90,000 pay. That's great for the people that have those educations. I have people working for me—they are the Beckys and the Kens and the Caras that are the single moms that couldn't make it cutting hair. You know, that's the type of people we are employing and giving good jobs and 80 percent of their health insurance. This is the kind of job people don't see. In school they are not teaching you to go into manufacturing. They are saying, you know, be on a computer, you need to be in high-tech, you need to be doing stem research. Well, what about building things? People don't build things anymore. They don't think that's a career. You know, it's scary. You are seeing an attitude change.

We are grateful for all the opportunities afforded to us thus far in our growth, and we are committed to continue doing world-class business from Peru, Maine.

We appreciate the attention that Senator Snowe and others are bringing to our situation. We're confident that if government and the private manufacturing sector work together to recognize and address the realities of foreign competition, we will continue to provide good quality jobs in an area where they are all too scarce. We don't want to become the spotted owl.

Thank you for the opportunity to address your panel, and we are ready to provide any insight and answer any questions that you may have. Thank you.

[The prepared statement of Ms. Bonney follows:]

LOLISA BONNEY
GENERAL MANAGER
WINDEROSA GASKETS

October 9, 2003

Lewiston, Maine

Testimony of LoLisa Bonney
General Manager
Winderosa Gaskets
Dixfield, Maine

To a select panel chaired by United States Senator Olympia Snowe

Regarding the impact on U.S. manufacturers by trade with China

October 9, 2003

Senator Snowe and distinguished members of the panel:

My name is Lisa Bonney. I am General Manager and part owner of Winderosa Gaskets of Peru, Maine. We are a small manufacturer of small engine gaskets used primarily in snowmobiles, hovercraft, personal watercraft, dirt bikes, ATVs, and lawn and garden equipment, and we're located in what might be considered a remote corner of a remote state: we are comfortably situated in the beautiful foothills of Western Maine. I am responsible for distribution of all our products, challenging enough for any business, but especially one starting from our particular geographic point of reference.

The subject of foreign trade is near and dear to us, since about 45% of our total sales volume comes from exports, and that's a percentage that has held pretty constant for the past four or five years. The company was founded in 1982, and exports have been a significant part of our distribution pattern since about 1985. We distribute to nearly 40 countries – all over Europe, plus Australia, New Zealand and New Guinea. In Australia, New Zealand and Europe, for example, our dirt bike products are actually used as basic transportation – street bikes – and so those countries represent important growth markets for us. Since 1982, our total volume has grown from about $50,000, to nearly $2-million, today.

Exporting has been such an essential component of our success that we have been privileged to have received several awards for what we have achieved in the world market. We were named Small Business Exporters of the Year by the U.S. SBA in 2000, and just last month were honored to have been conferred with the U.S. Department of Commerce Export Achievement Award, which was presented to us by Commerce Secretary Evans during his recent visit to Maine.

I think we've demonstrated the potential for international trade, from even such a small and relatively remote community as ours, but our success on the global stage has not been coincidental. We have always had a strong commitment to do whatever was required to be successful with that concept. We participate in a variety of trade shows that attract international buyers – here in the states in places like Cincinnati, Indianapolis and Louisville, and abroad in places like Cologne, Germany.

LOLISA BONNEY
GENERAL MANAGER
WINDEROSA GASKETS

October 9, 2003

Lewiston, Maine

Being an efficient exporter means that we must first be as efficient as possible in our own production operations. At the earliest opportunity, we optimized the productivity of our production facilities by designing a continuous-flow workspace. With the help of the Maine MEP, we were able to secure and sustain our crucial ISO 9001 certification, without which our original expansion into the international market would simply not be possible.

Perhaps most essential has been our commitment to and growing understanding of logistics management, a concept which is becoming increasingly important even for domestic business but which is absolutely vital for international success. Many smaller firms consider time and energy spent studying the logistics of efficient distribution to be an additional cost, but we believe it is critical to our profitability. Freight options from Peru are limited to begin with, and with our destinations and customers so far flung, we must really concentrate on the most cost-effective means of delivering our goods to where they need to be, when they need to be there.

In addition to the products we develop for the after market , we are mindful of the fact that many of our gaskets are ultimately used by Original Equipment Manufacturers (OEMs) as components of their finished commercial products, and so our role is that of a sub-tier supplier in sometimes sophisticated and geographically dispersed supply chains. Ultimately, then, our business succeeds relative to the success of the supply chains of which we are a part, so it is in our interests – as well as those of our customers – that we do whatever we can to ensure the supply chain functions smoothly, and that from the perspective of the end user, it is completely seamless and transparent.

Doing international business from Peru, Maine does present some challenges – and some expense – that some competitors elsewhere around the world do not experience. We remain confident, though, that to the extent we are playing on a relatively level playing field, we can continue to compete effectively. We have been able to withstand specific challenges from less expensive offshore competitors over the years. Some years ago, the gasket market was flooded with products from Italy, which proved after time in the field to have been of poor quality – inferior materials, inadequately fabricated. It took years for the industry to comprehend the magnitude of this problem, and then took additional time for those poor quality goods to be removed from the marketplace, and for machines in which they had been installed to be retrofitted.

So a big measure of our confidence stems from our consistent history of being able to produce higher quality gaskets than those available from other sources. It is vital to our continued success that we be able to maintain our competitive advantages. And although our export business remains robust, there have been some recent alarms sounding. Three or four years ago, we shipped a significant amount of product to Singapore and Malaysia, but those markets have virtually dried up for us, replaced by cheaper goods from China. While we believe those goods may be inferior to our products – as was the case with the earlier threat from Italy – it will take some time of use in the field before any inferiority becomes apparent, and in the meantime we have been largely excluded from Asian markets.

Not surprisingly, given our location and the seasonal dimensions of some of our products, traditionally our biggest export market has been Canada. Just this year, though, pres-season orders from our major Canadian distributors were softer than we had anticipated, but it wasn't until just last week that we learned that they have begun buying cheaper gaskets from a manufacturer in China.

We are clearly not afraid to compete on the global stage; it's where we belong. We have demonstrated that on a reasonably level field, we can compete quite effectively. And while we have not yet experienced the pressures of offshore competition that have impacted other U.S. manufacturers, we need to take action now to withstand threats to our market share.

We need to preserve our ability to deliver superior products, to be innovative and at the cutting edge of the requirements of our specific markets.

We need access to an infrastructure in this country that is supportive both of manufacturing in general and of the seamless functioning of complex supply chains in particular – one which encourages research and development, both in terms of improved products but also better ways of producing and distributing those products. Domestic investment in industrial infrastructure is critical to job growth, and job growth is critical to the restoration of vitality to the entire U.S. economy.

We are grateful for all the opportunities afforded to us thus far in our growth, and we are committed to continue doing world-class business from little Peru, Maine. And we would appreciate the kind of attention that Senator Snowe is trying to bring to our situation. We're confident that if government and the private manufacturing sector work together to recognize and address the realities of foreign competition, we can continue to provide good quality jobs in an area where such opportunities are all too scarce.

Thank you for the opportunity to address this panel, and we are ready to provide whatever insight or assistance we can as you carry today's messages back to Washington.

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Chair SNOWE. Thank you, LoLisa, very much. We appreciate your testimony. Thank you.

Rod.

STATEMENT OF RODNEY P. RODRIGUE, PRESIDENT AND CEO, MAINE MANUFACTURING EXTENSION PARTNERSHIP

Mr. RODRIGUE. Senator Snowe and members of your staff and distinguished members of the panel.

My name is Rod Rodrigue and I am the President and Chief Executive Officer of the Maine Manufacturing Extension Partnership. I appreciate the opportunity to speak to your panel on a subject that you, Senator Snowe, have continually championed. My written statement provides a report on the overall role of U.S. manufacturing and the many challenges is faces today. I think we are all in agreement of that. I have also submitted a number of reports that detail many of the problems and, hopefully, solutions along with testimonies with several Maine manufacturers who have been impacted by the China trade. The substantial barriers to manufacturing growth and development are prevalent not only here in Maine but throughout the Nation. I am glad everyone used my chart, there, I think, the one——

Chair SNOWE. Is that your chart?

Mr. RODRIGUE.——[continuing.] from the country—you could actually superimpose it just over that and I think it almost mirrors that chart.

I would like, however, to focus my brief oral testimony on outlining to you, Senator Snowe, real-time achievable solutions that can be quickly implemented. The timing issue that you mentioned is absolutely crucial. If these folks are extremely successful, who testified earlier, in the next year or 2 or 3, it will still be too late for a lot of our manufacturers. We are losing them daily and we need some real-time action, right now. So I applaud all the things they are doing, but we need some real-time, short-term solutions. These solutions are not simply ideas, but pilot programs that have been completed and have proven track records. Although these short-term solutions do not require major new Federal investments, they do require a solid commitment to preserve existing programs and a total dedication to refocus various programs into a single unified initiative to assisting the U.S. manufacturing community.

We are very fortunate here in Maine, because we have the SBA with Mary MacAleney, SBDC (Small Business Development Centers), MTI (Maine Technology Institute) and so forth, and we all pull together. But, nationally, that's what has to happen.

We also need to passionately embrace the realization that we are a Nation of producers, and that a robust manufacturing community is the fundamental key to full recovery and to strengthening our national defense and Homeland Security.

We need to realize that we are facing an economic national crisis in the manufacturing community that is devastating to our very economic survival and to our very way of life.

If we do not succeed in reversing this trend, I believe the following quote from "Securing America's Future: The Case for a Strong Manufacturing Base"—it's a 2003 report prepared for the Council of Manufacturing—will come to pass. And I quote, "If the

U.S. manufacturing base continues to shrink at its present rate and the critical mass is lost, the manufacturing innovation process will shift to other global centers. Once that happens, a decline in U.S. living standards in the future is virtually assured."

We must streamline transfer of technologies from the Federal laboratories and universities system to small manufacturing enterprises. Assessing which technologies are relevant to their business and producing second and third generation products is fundamental to maintaining manufacturing superiority. The Government Accounting Office report submitted with this testimony suggests that our Federal laboratory system is under-utilized in transferring technologies to small manufacturing enterprises, even though these labs are mandated to work directly with small manufacturing enterprises. Most of the services provided by the Federal laboratory system cannot be accessed by small manufacturers because they are unaffordable and mired in manufacturing bureaucracy and legal paperwork. The Maine MEP has had considerable success enabling small manufacturing enterprises to draw down existing technologies from the Federal laboratories on a real-time basis. These were done within 6 to 9 months and had tremendous economic impact. Some of the companies are alive today because of that transfer. We were, unfortunately, under budget constraints and could not continue.

Attached to this testimony is a list of over 200 successful real-time technology transfer projects that utilize National Institute of Standards and Technology data, and laboratories and universities. This successful effort, we believe, could be used as a national model and could be rolled out immediately.

We should strive to remove the barriers that limit small manufacturing enterprises access to Federal contracts and expand market opportunities.

We support the Administration's action to appoint an Under Secretary of Commerce for Manufacturing with the mandate to reduce the bureaucratic burden of these businesses and to refocus government assistance from a variety of sources directly to the manufacturing community. This action should quickly be followed by implementing the recommendations of the 2003 report on National Research Council titled, "Equipping Tomorrow's Military Force." We want a piece of that $87 billion to keep these small businesses alive, facilitate entry and strengthen small manufacturing enterprises into the defense and commercial supply chains. We need to build supply chains that are strong, flexible and robust in order to compete globally and protect small manufacturers from the predatory practices of foreign competition. Strength and flexibility in the supply chains can only come by engaging large numbers of small manufacturing and enterprises through teaming arrangements in response to procurement opportunities. These same teaming arrangements were used in World War II by Kaiser and Knudsen in building one ship a day when we had a national emergency. These same practices are relevant today and should be redeveloped.

The whole program only talks about one thing and that is about cutting through the red tape and getting it done. In the future, supply chains will compete, not companies.

Because of your support, Senator, we are about to launch an initiative with our New England Partners to enhance the Department of Defense and Original Equipment Manufacturers access to New England's small manufacturing enterprises and provide these suppliers with expanded access to defense and commercial procurement. That will start within a month and that was due to your initiative and vision over a year ago. And we thank you for that.

In closing, we need to refocus the resources we have throughout the Federal Government into one single program in support of manufacturing. If we succeed, we will stabilize, reinvigorate and rejuvenate the manufacturing base. America's workers can compete. They respect free trade, but need fair trade. Senator Snowe, you have been a consistent champion for small manufacturers and for the MEP system and for that we remain extremely grateful. Much of what we have been able to accomplish so far, and what we are doing now, is directly attributable to you leadership and your vision. That vision and leadership has never been more needed than right now. The men and women who go to work everyday in our factories deserve the basic human dignity of being assured of their rightful place in building wealth for their families, for their State and for our Nation. And I thank you for having this session and thank you for inviting me.

[The prepared statement of Mr. Rodrigue follows:]

RODNEY P. RODRIGUE
PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

Testimony of Rodney P. Rodrigue
President and CEO
Maine MEP

To a select panel chaired by United States Senator Olympia Snowe

Regarding the impact on U.S. manufacturers by trade with China

October 9, 2003

Senator Snowe and distinguished members of the panel:

If I may introduce myself: My name is Rod Rodrigue, and I have been President and CEO of the Maine MEP since 1997. I am a graduate of Maine Maritime Academy, and following service in the Merchant Marines and U.S. Naval Reserve, I have enjoyed a 30+ year career in engineering and manufacturing, including various CEO positions dating back to 1975. Through my work with the Maine MEP, the NIST MEP system, and as managing agent for five other MEP centers, I have been privileged to work closely with hundreds of U.S. manufacturers of all sizes, representing virtually every classification of industry. The insight I believe I bring to this panel today is representative of experiences widely shared among the manufacturing constituency I represent.

For nearly two centuries, American manufacturing has been the engine of prosperity for both the United States and in large measure for the global economy. It produced the highest standard of living in the history of the planet, stimulated immigration, innovation and a degree of widespread affluence unprecedented in the long chronicle of mankind.

At the same time as it helped shape and define modern society both at home and abroad, American manufacturing might has provided the most essential underpinning to the preservation of our freedoms – it helped preserve the Union in the middle of the 19th Century, make the world safe for democracy and defeat the Axis powers in the 20th, and is perhaps the most critical element of the ongoing war on terrorism in the 21st Century.

But it is the direct linkage between the health and vitality of America's manufacturing base and the vigor of the rest of the U.S. economy, as well as the fact that the well-being of all Americans is inextricably dependent on the kind of industrial expansion that is the product of the manufacturing community, that can provide the basis for economic recovery and growth as well as for domestic security and tranquility as we move deeper into the new century.

The first industrial revolution enabled manufacturers to provide large quantities of goods more quickly and less expensively than in the past. Commodity

RODNEY P. RODRIGUE
PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

manufacturing, in turn, stimulated the Era of American Innovation: the dawn of technology at the start of the 20th Century. And it was this Era of Innovation that transformed civilization, that produced the efficiencies of scale that facilitated the transition from the agrarian economies that dated back to the middle ages, to the technologically-oriented economies in which all of the people in the developed world are coming to thrive in the 21st Century, and to which those in the developing world aspire.

In a recent study prepared for the National Association of Manufacturers (NAM), the point was made that:

> "Manufacturing's innovation process is the key to past, present and future prosperity and higher living standards. The intricate process starts with an idea for a new product or process, prompting investments in research and development. R&D successes lead to investments in capital equipment and [personnel], and to 'spillovers' that benefit manufacturing and other economic sectors. This process not only generates new products and processes, but also leads to well-paying jobs, increased productivity and competitive pricing."[1]

Assistant Commerce Secretary for Technology Mehlman said in a speech last year:

> "If innovation and entrepreneurship profoundly *shaped* the 20th Century, they will *define* the 21st. Knowledge development and technology commercialization are the new drivers of economic growth, both in the U.S. and around the world. Our ability to create new innovations and harness their power will directly impact our national prosperity, security and global influence.

Historically, it has been the ability of U.S. manufacturing to evolve more quickly and dramatically than our competitors elsewhere in the world that has sustained the prosperity of the industrial sector and the rest of the domestic economy directly impacted by manufacturing. This evolution, as has been suggested by Assistant Secretary Mehlman and others, has been the result of the convergence of entrepreneurial energy with the commercial imperatives of finding better processes for producing manufactured goods, as well as developing new manufactured goods to fulfill hitherto un-met needs of our people, our markets and our country: better – faster – cheaper, combined with the ability to develop new technological solutions to the needs and wants of a population becoming ever more accustomed to expanding opportunity, wealth, and access to new devices designed to further enhance quality of life.

[1] *Securing America's Future*: The Case for a Strong Manufacturing Base; Joel Poplin and Company – Prepared for the NAM Council of Manufacturing Associations; June, 2003

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PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

Thus, even as developing countries have been able to supply vast quantities of cheap labor and thereby capitalize on less restrictive regulatory environments in order to replicate American merchandize and industrial components at far less cost than domestic producers, American manufacturing has been able to preserve its leadership position through its investments in research and development, its ability to rejuvenate and upgrade itself through consistent innovation. That was equally true of the low-tech industrial evolution at the start of the 20th Century as well as the high-tech evolution at the end of the century.

The *Securing America's Future* report delineated five ways in which manufacturing innovation benefits the entire U.S. economy:

- "**Grows the Economy** – Manufacturing gtowth spawns more additional economic activity and jobs than any other economic sector. Every $1 of final demand for manufactured goods generates an additional $0.67 in other manufactured products and $0.76 in products and services from nonmanufacturing sectors
- **Invents the Future** – Manufacturers are responsible for almost two-thirds of all private sector R&D - $127 billion in 2002. Spillovers from this R&D benefit other manufacturing and nonmanufacturing firms. R&D spillovers are enhanced by geographic proximity.
- **Generates Productivity Increases** – Manufacturing productivity gains are historically higher than those of any other economic sector – over the past two decades, manufacturing averaged twice the annual productivity gains of the rest of the private sector. These gains enable Americans to do more with less, increase our ability to compete, and facilitate higher wages for all employees.
- **Provides More Rewarding Employment** – Manufacturing salaries and benefits average $54,000, higher than the average for the total private sector. Two factors in particular attract workers to manufacturing: higher pay and benefits, and opportunities for advanced education and training.
- **Pays the Taxes** – Manufacturing has been an important contributor to regional economic growth and tax receipts at all levels of government. During the 1990s, manufacturing corporations paid 30-34 percent of all corporate taxes collected by state and local governments, Social Security and payroll taxes, excise taxes, import and tariff duties, environmental taxes and license taxes."[2]

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[2] *Ibid.*

RODNEY P. RODRIGUE
PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

The Unites States continues in its role as the "most innovative nation on Earth." We still generate more patents, per capita, than any other nation. Total scientific output exceeds that of the European Union and Japan. And the U.S. funds 44% of the total worldwide investment in R&D, equaling the combined total of Japan, the UK, Canada, France, Germany and Italy[3].

Yet the mounting challenges to the worldwide dominance of U.S. manufacturing as well as to the unparalleled standard of living for which it has been responsible are becoming more evident every day. While the U.S. long ago acknowledged the ability of emerging nations to produce commodity goods at lower cost – due to the vast discrepancies in the cost of labor between the third world and the second – it has been our ability to innovate and evolve that has sustained us. That ability, however, has now come under pressure from the developing world, as well, and with that growing pressure has come the most significant contraction of our manufacturing capacity since the beginning of industrialization – and with it, a whole new threat to our prosperity and our very way of life.

> "The current economic slowdown is essentially a manufacturing recession – a deep one. The rest of the economy, while not growing at its usual rate, has not felt the same pain as manufacturing. Manufacturing represents 14 percent of the American workforce, but has accounted for nearly 90 percent of all the job losses since total U.S. employment peaked in March, 2001."[4]

That same report goes on to enumerate five specific challenges to the long-term viability of U.S manufacturing:

- **Loss of Jobs** – in addition to unprecedented job losses, manufacturing output has shown virtually no growth since December, 2001 - the official end of the recession – in the weakest manufacturing recovery since 1919.
- **Loss of Export Potential** – The U.S.S trade deficit has ballooned to historic highs – reflecting an increase in purchases of foreign-made goods, especially from countries which do not freely float their currencies.
- **Investments are Going Elsewhere** – While U.S. manufacturers conduct two-thirds of private R&D, their R&D spending between 2000 and 2002 grew at only half the pace of the previous decade.

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[3] 2002 S&E Indicators, National Science Board

[4] Testimony before the Subcommittee on Commerce, State, and the Judiciary, U.S. House of Representatives Committee on Appropriations, by Franklin J. Vargo, Vice President, International Economic Affairs, National Association of Manufacturers; May 22, 2003.

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- **Needs More Skilled Workers** – Despite the loss of more than 2.3 million jobs, manufacturing is facing a potential shortfall of highly qualified employees with specific educational backgrounds and skills, especially those specific skills needed to product manufactured goods.
- **Faces Dramatically Rising Costs** – The cost of doing business in the United States is rising dramatically, in large measure because of significant costs related to healthcare, litigation and regulation[5]

Nearly three-million manufacturing jobs have been lost in this country since 1998, representing more than 16 percent of the total manufacturing workforce, while employment in the rest of the economy has fallen by less than one percent.

While the manufacturing sector, itself, has not produced a significant number of net new jobs in many years, because unskilled jobs have been moving offshore for decades, manufacturing has nevertheless been directly responsible for economic stimuli that have fueled job growth in related industries and in those sectors of the economy most particularly impacted by manufacturing, including transportation and distribution, communications, trade, utilities, information technology, and, of course, scientific and engineering employment engaged in technological expansion and innovation.

The capacity of manufacturing to consistently support the rest of the U.S. economy, however, has been diminished, because the international playing field is no longer level. We now operate under constraints that are both unprecedented and massive. But the problems posed by the new international realities are not insurmountable, nor must those conditions inevitably continue their assault on the American way of life.

There are numerous dimensions to the problem of the current implosion of U.S. manufacturing, and the consequences of those factors could have dreadful implications for the future of the U.S. economy and defense preparedness, if left unanswered. At the same time, however, I believe we already have some solutions to these issues in sight and that restoring vigor to U.S. manufacturing and through that sector to the rest of our economy is within our grasp. I further submit that doing so should not require new funding, nor any regulatory upheaval. We need to simply pay attention to some details that have escaped attention recently, to recognize that the basis on which we will compete in the global arena going forward will be different than it has been in the past. And ultimately, we should be able to capitalize on the ability of the manufacturing sector to fund its own recovery.

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[5] *Securing America's Future*: The Case for a Strong Manufacturing Base; Joel Poplin and Company – Prepared for the NAM Council of Manufacturing Associations; June, 2003

RODNEY P. RODRIGUE
PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

Allow me to enumerate the specific problems with which we are confronted, as I understand them, and then propose some remedial strategies which will, I believe, set up the U.S. economy to deal with 21st Century imperatives with much the same strength with which we met those of the 20th.

The first issue, and the one that is the focus of much attention, currently, is China, and as has always been the case with the world's most populous country, China is an enigma to much of the rest of the world. To begin with:

> "While competition from Chinese imports and fear that U.S. manufacturers will move production to China dominate the concerns of many companies, others see China as their only growth market."[6]

That China may be part of the long-term solution to the problems of U.S. manufacturing by presenting the greatest opportunity for export expansion and sales growth exacerbates the dilemma of how to meet the immediate pressures that China also presents.

Appended to my testimony today are the observations of several small manufacturing clients of the Maine MEP. Together, they reflect the litany of concerns about the extent to which China has had damaging impacts on the U.S. economy as well as concerns about the near term outlook for further incursions. Problems represented by China are often summarized under consideration of an imbalance of trade and the ability to undercut U.S. manufacturing costs:

> "...U.S. machinery imports from China have risen nearly 50 percent over the past year. Many of these products are being offered for sale at prices so low that a U.S. company just cannot compete. In fact, it is not unusual to hear that the Chinese product is being offered for sale at prices below the cost of the U.S. company's component or raw material costs."[7]

While the current threat to the supremacy of U.S. manufacturing is most prominently symbolized by China, that nation is just the latest in a series of challenges we have confronted since the end of World War II, and since the acumen, resources and manufacturing clout of the U.S. were engaged in the successful efforts to rebuild the economies of Western Europe and Japan.

> "For example, China is now the largest supplier of computers and related components into the U.S. market. Yet as recently as 2000,

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[6] *op. cit.*
[7] *Ibid.*

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PRESIDENT AND CEO
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> China was only our fifth-largest supplier of these products. Though total U.S. imports of computers and components fell from 2000 to 2002, imports from China soared nearly 50 percent, while imports of these products from Japan fell 50 percent and from Korea fell over 40 percent."[8]

Investments made by the World War II allies helped Japan assume a prominent role in the global economy and to pose serious challenges to the U.S. manufacturing industry. In fact, much of the work undertaken by the NIST MEP system in the past half-dozen years has been to help American manufacturers adopt some of the productivity enhancement technologies and best practices that had first been deployed in Asian economies, especially Japan. Much of the literature which conveys the principles of Lean manufacturing – one of the core programs offered by the MEP system – uses Japanese terminology as the most effective means of articulating some of the intricacies of the fundamental concept.

Another cornerstone element of the counsel provided by the MEP centers is that since it has become axiomatic that U.S. manufacturers cannot match the labor costs of outsourcing to developing countries, they must, instead, use their inherent technological advantages to work smarter – to compensate for their inability to match labor costs by improving productivity, eliminating waste and becoming early adopters of new technological processes, product innovations and, as we shall see, new methods of distribution and more sophisticated techniques for becoming fully integrated into comprehensive supply chains.

All of which is not to diminish the significance of this latest threat, by any means. In fact, the danger posed by China may be greater than earlier challenges from Asia or elsewhere, because at this juncture in our economic history, we have begun to outsource technology, innovation and intellectual property, in addition to unskilled labor. Those are trends that are more difficult to reverse as well as potentially more damaging in the long run. While the population of China, at roughly 1.3-billion people is more than ten times that of Japan, the threat from China is not just one of quantity, but also of substance.

In a report to the National Advisory Board of NIST MEP prepared by the Manufacturing Futures Group last month, the aggregation of challenges from China were enumerated as being comprised of:

- "**Foreign Direct Investment —** As a result of the Chinese government's economic reform efforts, particularly in Eastern China, the nation has enjoyed an explosion of foreign direct investment (FDI).
- **International Trade Policy —** China's economic development is being accelerated by international trade policy, especially as a result of entry into the World Trade Organization (WTO).

[8] *Ibid.*

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- **Labor Supply** — China's almost inexhaustible native labor supply, with over 1.3 billion inhabitants, has helped keep labor costs low, particularly as rural Western Chinese seek jobs in the industrialized East.
- **Currency Policy** — China's continued under valuation of its currency has kept the cost of Chinese labor and goods extremely low.
- **Markets and Exports** — China's economic development is also being driven by the promise of a growing Chinese market for goods and services. As multinational corporations that have located manufacturing facilities in China wait for the internal market to mature, they focus largely on goods for export to the United States and other established markets, thereby impacting international trade balances.
- **Capital Accumulation** — Sales to overseas markets and foreign direct investment have become the primary mechanisms to generate capital in China. Thus, China has managed to fuel a significant percentage of its economic growth with a large increase in investment from the global money markets.
- **Education & Recruitment** — The Chinese state is committed to building a strong educational system, and China has undertaken a strategy to bring back expatriate Chinese scientists and engineers that have been educated in the United States.
- **Transition From Low-Tech to High-Tech Production** — Over the last decade, China has shifted from traditional, low-tech production and processes toward higher-tech, higher-wage manufactured products and processes.
- **Formal and Informal Intellectual Property Policy** — China has also undertaken a strategy to greatly enhance its intellectual property, both by requiring that foreign manufacturers train their local partners in the technologies associated with their products and by illegally acquiring intellectual property."[9]

It is clearly the composite of those factors that has enabled China to rise to the threat levels that might seriously challenge the supremacy of the U.S. economy well into this new century, rather than any of those factors taken alone. That said, however, it is my intention to focus attention on those few elements which may provide us with the best opportunity to avert further degradation of our manufacturing infrastructure, economy and capacity.

The June, 2003 National Association of Manufacturers' report includes this passage, excerpted from the book *Manufacturing Matters: The Myth of the Post-Industrial Economy*:

> "What matters to us most are the links that promote ongoing market adaptation and technological innovation. Advanced computers and telecommunications equipment depend on innovation in electronic devices. And expanding telecom industry

[9] *What Fuels China's Growth*, Manufacturing Futures Group, NIST MEP; by Ben Vickery, 9/25/03

> provides a market for computers and microelectronics components. Japan's early advantage in certain advanced semiconductor products – for example, CMOS (complementary metal on silicon) memory chips – was built on its market position in consumer electronics. This instance suggests a broader conclusion: advantage in a national economy is embodied not simply in the capacities of specific firms but in the web of interconnections that establishes possibilities for all firms.
>
> Technological innovation depends on a series of subtle and complex interconnections. Knowledge of auto manufacturing or airplane manufacturing promotes innovation in machine tools, and advances in machine tools permit production innovation in many other industries. The wide-spread technological interplay involving small improvements may be even more important than the dazzling breakthroughs"[10]

In other words, we are at greatest risk when we outsource not just volume production, but also the fundamental intellectual property on which that production is dependent. That the U.S. manufacturing sector was able to sustain itself until the most recent contractions began in 1998 or '99, despite many decades of production shifting to offshore venues, was testimony to its ability to constantly re-invent itself through technological innovation. That U.S. manufacturing has incurred such an enormous loss of jobs in the interval since then suggests that there has been a change in the quality of what is moving overseas, as well as the quantity.

The *Manufacturing Futures Group* report also makes this relevant observation:

> "The notion that China is purely a source of low-quality goods produced with low-tech manufacturing operations and processes is now inaccurate. Over the last decade, China has shifted from traditional, low-tech production and processes toward higher-tech, higher-wage manufactured products and processes.
>
> - Although in 1989 only 30% of imports from China competed against goods produced by high-wage industries in the U.S. market, by 1999 that percentage had risen to 50%, " *Economic Policy Institute (5/00)*
> - China's computer production appears poised to surpass Japan in 2003 and could surpass the U.S. in 2005 or 2006, *U.S.-China Security Review Commission (6/5/02)"*[11]

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[10] *Manufacturing Matters: The Myth of the Post-Industrial Economy, Stephen Cohen and John Zysman, Basic Books, Inc., New York, 1987*
[11] *op.cit.*

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While the private sector of the U.S. economy still leads the world in R&D investment, the size of that investment has been diminishing in recent years – both in absolute dollars and as a percentage of industrial output or GDP – as has the number and, arguably, the sophistication of new technologies introduced to American industry. The economic expansion of the 1990s was fueled by the most dramatic sequence of technological innovation and evolution since the earliest days of industrialization, and the subsequent constriction has been accompanied by commensurate reductions in both the commitment to and output from R&D.

Although the U.S. continues to account for 44% of all worldwide investment in research and development, that is down substantially from 70% in 1970. There has been a sharp decline in the number of new patent applications by U.S. industry, as well, with a year-to-year increase in 2002 of less than 1.5% contrasted with double-digit growth in each of the boom years of innovation and expansion in the late 1990s[12].

At the same time, there are alarming signs that the migration of technology and innovation overseas may be following the earlier route of production. An article in *Barron's* magazine this past spring addressed the growing trend toward exporting technology-related jobs, including design engineering. "[those companies] have sucked the manufacturing prowess out of American industry," *Barron's* reported, "and now they're embedding the design process in their business...Innovation is starting to happen overseas." The number of computer jobs in the U.S. shrunk 10% in the past two years, with many of those jobs migrating to India and China. According to a recent article in the *Detroit News*, "It's a major long-run structural issue for the American economy." The paper credited Wells Fargo & Co. with the observation that "white collar jobs are increasingly scarce during what's being called the 'jobless recovery'" as many of those jobs leave the country.

The potential long-term impact is greater than simply loss of jobs, however grave that may be. As we lose this particular class of employment, we also lose intellectual capacity and the infrastructure of innovation and growth. In turn, our ability to meet technological challenges, and especially to maintain the supremacy of our military technology, is being systematically degraded. There are obvious implications not only for economic recovery, but also with respect to the basic security of our society itself.

I believe that a renewed emphasis on the creative core of our manufacturing sector should be a foundation of Federal policy formulation as we move forward.

Borrowing again from the testimony of the National Association of Manufacturers:

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[12] *Los Angeles Times*, October 22, 2002

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> "We need a positive agenda in addressing China. We need to recognize that China is not only our fastest growing competitive problem right now, but also that is going to be among our fastest-growing markets in the world. We need a combination of steps to ensure that trade follow market principles and is free of government distortions, and to ensure that American productivity and technology continues to provide us a competitive edge."[13]

It has been suggested that a comprehensive approach to redressing the problems confronting American manufacturing, especially with respect to China, requires attention to the enforcement of trade agreements (including protection of intellectual property rights), and modification of tax policy in such a way as to encourage new investment in manufacturing. Other recommendations have included expanded funding of the ManTech program, and renewed Federal investment in R&D as it specifically relates to our manufacturing industries. Not to be omitted from this laundry list, of course, is continued – if not actually expanded – funding of the MEP program, which I certainly endorse with great enthusiasm, and for which we are grateful for Senator Snowe's consistent and fervent support. There are three value-adding components to our economy – mining, manufacturing and agriculture. The agricultural extension program has been funded at levels of $900-million, and has paid off by ensuring that the U.S. agri-business infrastructure has been the breadbasket of the world. On the other hand, the impact of manufacturing on the larger economy exceeds that of agriculture by three-fold, yet the manufacturing extension program is fighting to retain its modest $100-million federal funding.

While I agree with that strategic thinking, I'd like to concentrate on a sub-set of the total strategy, to focus our attentions on some manageable tactics that could be implemented right away. *The Manufacturing Futures Group* white paper suggests attention should focus on three finite dimensions of the larger problem:

- "U.S. manufacturers must focus more on innovative products that are agile to rapidly changing markets and nimble to meet each customer's needs.
- U.S. manufacturers must also focus more on the upstream functions of the product/manufacturing lifecycle and less on actual production.
- Smaller manufacturers must optimize their effectiveness within larger supply chains — both domestic and international."[14]

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[13] Testimony before the Subcommittee on Commerce, State, and the Judiciary, U.S. House of Representatives Committee on Appropriations, by Franklin J. Vargo, Vice President, International Economic Affairs, National Association of Manufacturers; May 22, 2003.
[14] *What Fuels China's Growth*, Manufacturing Futures Group, NIST MEP; by Ben Vickery, 9/25/03

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I would summarize those recommendations as:

- **First**, facilitate the transfer of technology into viable commercial applications, quickly and effectively.
- **Second,** enable small manufacturers to do business more easily with the federal government and its major suppliers.
- **Third,** enable SMEs to assume larger roles in fully integrated supply chains.

Others have postulated that a crucial strategic factor in rebuilding the capacity of the manufacturing sector to engage in innovation might be linkage with the purchasing power and technology-driven requirements of the Defense Department and its major contractors, and this notion, combined with the *Manufacturing Futures Group* recommendations, comprises the basis of the strategic premise labeled *Integration of Commercial and Military Manufacturing* (ICMM), articulated in the recently released study entitled *Equipping Tomorrow's Military Force – Integration of Commercial and Military Manufacturing in 2010 and Beyond,* prepared by the Board on Manufacturing and Engineering Design, Division on Engineering and Physical Sciences, National Research Council.

That report eloquently describes the case for combining the interests and resources of the manufacturing sector with those of national defense:

> "**A Compelling Military Need**: The expected nature of combat in 2010 is driving DOD to a substantial transformation of its force structure. The new force will be more flexible, able to respond more rapidly, and better equipped to deal with an unpredictable threat. The *transformation strategy implicitly relies on the rapid introduction of new technology and rapid industrial response for the replenishment of weapons, spare parts, and other consumables essential to readiness and sustainability* (emphasis added). The fact that potential adversaries have easy access to commercial technology will compel DOD and defense contractors to excel at being the first to integrate militarily relevant commercial technology into defense systems…"[15]

The committee responsible for that report asserts:

> "[We] believe that a great opportunity exists for DOD to capitalize on the availability in the next decade of flexible, highly automated commercial and dual-use production lines for subsystems and components. Commercial supply chains will routinely exchange

[15] Equipping Tomorrow's Military Force, published by National Academy Press, ©2003, National Academy of Sciences

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> Web-based engineering and business data that drive efficient automated parts and assembly processes."[16]

The means to achieving the complete revitalization of our manufacturing sector are within the capacity of existing resources to achieve. The National Academy of Sciences committee further asserts:

> "...the current barriers to ICMM call not for more policy changes but rather for policy implementation, incentives, and culture change."[17]

What makes this strategy feasible is a unique synergy between the needs of defense and the productivity of the manufacturing sector. Impediments toward realization of this strategy include a dependence on smaller manufacturing enterprises which are among the most agile and adaptable in the world. It is just these small-medium manufacturing enterprises (SMEs) with which the MEP system concentrates and with whom we have the most experience, and so it is likely that we can be particularly helpful in the process to bring this strategic thinking to fruition.

That synergy is defined by the National Academy of Sciences panel in this way:

> "The economics of high-volume markets enables commercial industry to advance technology and reduce costs at a pace that defense could never afford. This has been and continues to be the case in microelectronics. It is also the case for Global Positioning System (GPS) technology, cellular phones, and turbine engines. High-volume commercial production enables a faster descent of the learning curve and a firmer statistical foundation for in-line process control, six-sigma quality, and higher process yields of reliable parts."[18]

Faster distribution of the learning curve, together with the other quality assurance and productivity enhancing techniques to which the panel refers have been among the core services provided to SMEs by MEP centers for years and have been the basis for the extraordinary impact achieved by the NIST MEP system, even during the unprecedented constriction of the manufacturing sector in general.[19]

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[16] *Ibid.*
[17] *Ibid.*
[18] *Ibid.*
[19] An internal assessment survey by NIST MEP reported that MEP clients served in 2001 alone reported that as a result of that service they created or retained 25,000 jobs, increased or retained $2.2-billion in sales, realized $442-million in cost savings, and invested $681-million in modernization.

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As for capitalizing on the synergy between public needs and private capabilities – *We've done it before.*

The needs of defense and defense-related interests have combined with private industry to produce much of the technological evolution that characterized the second half of the last century. World War II stimulated advances in communications, circuitry, transportation and logistics, medicine, aviation and rocketry, in ways far beyond the requirements of weapons systems and the immediate needs of the war. Similarly, many of the most spectacular technological progress of the middle part of the last century were facilitated by the needs of the space program.

Conditions are different now, though. Much of the change experienced in the period since World War II was accomplished by large, vertically-integrated conglomerate manufacturers, and it is this kind of infrastructure that has been most severely impacted by the upheavals in global manufacturing parameters in recent years. The drive to produce better, faster, cheaper has led not only to outsourcing much production off shore, but also to the dismantling of the sort of manufacturing behemoths that characterized the 1950s and '60s, in favor of smaller, more adaptable enterprises that are also less dependent on large production volumes in order to be self-sustaining. Thus, any emulation of the historical relationship between the needs of the defense and commercial sectors must operate within the new realities of a more diverse network of smaller manufacturing enterprises than in the past. Fortunately, modern technology enables this sort of transactional process to proceed without imposing new logistical burdens on an already over-stressed economy; to make doing business between supply chains as seamless as it used to be between individual businesses.

I believe that the notion of capitalizing on the common interests of the commercial and public sides of the manufacturing economy are essential for the recovery we are seeking. It has become increasingly true that in the 21st Century economy, businesses do not compete with one another; supply chains do. And the role of individual SMEs is defined according to the extent to which they can be profitably integrated into a comprehensive and robust supply chain, one which is able to meet the technological and volume requirements of both the defense and commercial sectors in the seamless manner that is the foundation of ICMM.

Some of the most fertile opportunities for ICMM occur in such fields as wireless communications technology, photonics, night vision systems, biomedical technology, fuel cells, microprocessors, and, especially, micro-electromechanical systems (MEMS).[20]

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[20] *Op. cit.*

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In addition to the categories of goods that represent potential for ICMM collaboration, the National Coalition for Advanced Manufacturing has identified numerous technologies in various stages of development that can impact the ways in which those goods are designed and fabricated, including (as examples):

- Reconfigurable software tools and systems
- Solid free form fabrication
- Advanced sensors
- Micro-fabrication
- Modeling, simulation and visualization
- Smart systems
- Designer materials

While the incentives for collaboration between defense and commercial sectors are clear, the prognosis for success is not foregone:

> "Consumer products, particularly consumer electronics, are becoming more and more miniaturized, fueled to a large degree by product designers in Asia. Miniaturization here leads to products that are more portable or that incorporate more features in the same package. The trend toward miniaturization drives smaller physical dimensions and proportionately smaller dimensional tolerances. These trends require commercial manufacturing processes and tooling capable of higher precision than in the past. As commercial manufacturing evolves to higher precision capability, opportunities will open up for DOD to leverage this capability for defense manufacturing needs that were once beyond the scope of commercial production."[21]

On the other hand:

> "Despite the broad success of U.S. companies during the 1990s, there is a steady retreat from domestic manufacturing in many fields (NRC, 1996b). This may add risk to ICMM. While contract manufacturing is a significant trend, few contract manufacturers of circuit boards [*for example*] are based in the United States. DOD will have to assess the risks of depending on foreign suppliers to enable ICMM and take appropriate action."[22]

What must happen to enable the promise of ICMM to materialize into momentum that will reinvigorate the U.S. economy? The Maine MEP is engaged in a number of initiatives which could prove useful on a more macro scale, but key to being

[21] *Ibid.*
[22] *Ibid.*

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able to capitalize on these techniques must be a realization on the part of the defense sector that their needs must be satisfied by domestic suppliers to the fullest extent possible.

We are developing an exclusive methodology that helps original equipment manufacturers (OEMs) and other major drivers of manufacturing capacity (such as DOD) to assess the capacities and capabilities of their supply chains to meet their needs, both current and anticipated. This process identifies gaps in readiness or fulfillment potential, along with the means to redress those gaps.

The system under development by the Maine MEP exports the fundamental principles taught and implemented by MEP centers within individual enterprises throughout entire supply chains, enabling those more sophisticated organizational structures to function seamlessly, from the customer perspective, and as effectively as though they were a single entity (rather than an amalgamation of smaller independent units), while at the same time eliminating redundancies and ensuring optimum efficiency from the perspective of the end user. In order for such techniques to be universally acceptable and to achieve the degree of impact of which they are capable, all parties to the supply chain – from the sources of raw materials to the ultimate customer – must benefit from improvements in productivity, cost reductions, economies of scale and other measures designed to improve profitability.

The concept which will drive universal commitment toward the realization of ICMM objectives through domestic supply chains comprised primarily of U.S. suppliers is the notion of Gain-sharing:

> "...contracts should provide the contractor a generous share of any savings attributable to design or production changes that implement ICMM."[23]

Gain-sharing is a codified process that distributes the financial benefits of performance improvements among all the elements of a supply chain in such a way as the costs to the customer are reduced while profits to suppliers are improved, as well. Full deployment of a gain-sharing model throughout an ICMM supply chain will produce enough incentive to sustain the improvement model and to ensure that it is adapted throughout most integrated domestic manufacturing systems.

Once there has been a demonstrated commitment to gain-sharing, along with evidence of the extent to which such systems can enhance profitability, the supply chain must be configured in such a way as to capitalize on the strengths of each of its member units while minimizing any impact from their deficiencies. Individual

[23] *Ibid.*

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SME members of a fully functional supply chain may lack certain skills, resources, certifications or capacity, which can be offset by other members of the same supply chain. Integration based on complementary contributions is a process we refer to as *teaming*, and the success of this process is also a function of gain-sharing.

One member of a supply chain may have under-utilized plant capacity, but lack certain oversight or certifications required by stringent DOD specifications (but which might be perfectly acceptable to commercial customers). Combining the divergent resources of multiple small suppliers can often enable a single supply chain to meet the needs of both commercial and DOD customers, the essence of the ICMM concept.

Among the shortfalls which teaming can redress is that of qualified personnel. Despite the reduction in the manufacturing workforce experienced in the last three years, many employers often experience a lack of personnel with advanced technological skills: "...not a lack of employees, but a shortfall of highly qualified employees with specific educational backgrounds and skill."[24]

Another area in which the MEP system has had some notable success is the process of transferring technological innovation from laboratory to shop floor, to facilitate interaction between, for example, individual SMEs and the Federal laboratory network, or between supply chains and sources of R&D funding and actualization. One example of how Maine MEP has been able to provide this kind of assistance is the Kenway Corp., of Augusta, which used to fabricate commodity industrial pipes, tanks and ventilation systems, and was getting kicked around by cheaper offshore sources. Because we were able to take advantage of some pilot project funding and in-kind services from the federal lab system, Kenway was able to add technological value to its core products – adding electronic sensors and fiber optics that differentiates them in the marketplace.

There are 714 federal labs that are mandated to work directly with SMEs, but for the most part the embedded costs of this vast scientific infrastructure are being wasted, since the labs do not contribute to those for whom they were intended. Those services cannot be accessed by SMEs who cannot afford the required cost-match. Most of the service provided by the federal laboratory system to the private sector goes only to large OEMs – the Intels and IBMs – with vast resources of their own. Our sister MEP center in New Mexico has had great success working with Sandia National Laboratory because state funding has been available there to help between 80 – 100 companies take advantage of this program. The federal funding that had originally been appropriated to support the mandated mission of the R&D system was terminated, however.

[24] "The Skills Gap 2001: Manufacturers Confront Persistent SkillsShortages in an Uncertain Economy," National Association of Manufacturers, 2001

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The National Coalition for Advanced Manufacturing (NACFAM), in a white paper prepared in May of this year, delineated a series of policy initiatives which could comprise a new national strategy to protect and expand the U.S. manufacturing base. The basis for their recommendations corresponds to the convergence of military and commercial needs and opportunities, along with the innovative technological processes which are emerging as the high-productivity techniques for the new century, as well as with the strategies which I am advocating.

> "As an early step towards transformation, technologies and processes are already in the pipeline to manufacture a 'product of one.' Also known as 'mass customization,' this would mean the production of highly individualized products on a mass scale...
>
> If manufacturers across the nation accelerate the development and use of advanced production technologies to transform the means of production, this would profoundly enhance the productivity and global competitiveness of U.S.-based manufacturing...
>
> The challenge is to ensure that the technologies and processes to enable this transformation are more rapidly developed and deployed. Only when the use of these advanced technologies reaches critical mass will they have the desired macroeconomic benefits."[25]

The NACFAM white paper concludes with a call that renewed national attention be directed toward the problems of technological trade imbalance. The association held an "Advanced Manufacturing Policy Planning Session" at the GM Tech Center in Warren, MI, in March of this year. The major outgrowth of that meeting included four policy recommendations which happen to correspond well with the position that the Maine MEP would like to articulate, as well. Most of the tasks necessary to support those objectives could be addressed for little or no cost, simply by taking full advantage of the systems and structures currently in place (although it's important to note that those systems ought to be at least maintained at levels comparable to those of recent years and in no way diminished).

The strategy proposed by NACFAM is based on two fundamental goals:

1. "Increase labor productivity by greatly accelerating the use of advanced technologies.
2. Leverage national resources through major expansion of public-private partnerships."[26]

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[25] *Industrial Transformation: Key to Sustaining the Productivity Boom*, National Coalition for Advanced Manufacturing; May 30, 2003
[26] *Ibid.*

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Specific policy recommendations include:

- Move global competitiveness higher on the national agenda
- Develop and deploy next generation process technologies
- Enable America's workers to keep pace with technological change
- Decrease supply chain vulnerability and support the nation's smaller suppliers[27]

I'd like to close the loop, now, by indicating how these policies conform to the message I've brought today, as well as how the MEP system is integral to the successful pursuit of these objectives. In fact, NACFAM recommends "more effective use of the manufacturing-related programs at [NIST], given its unique responsibility for assisting industry,"[28] a point of view that reinforces the mission and goals of the NIST MEP system. At the same time, though, services provided by MEP centers must evolve to match the requirements of the new international competitive paradigm, and Maine MEP is among the leaders in providing the cutting edge programs that will enhance the ability of domestic SMEs to resume leadership positions in global markets.

The recommendations I would like most to emphasize today, while conforming to the more detailed proposals elsewhere in my testimony, can be condensed into four specific policy-related suggestions:

Solution #1: Streamline transfer of technologies from the federal laboratories to SMEs.

- Streamling transfer of technologies from the federal laboratories to SMEs is more critical today than in previous years because SMEs are facing ever-increasing challenges in keeping pace with worldwide innovations, assessing which technologies are relevant to their business and producing second and third generation products.
- In testimony provided by Congressman Lawrence Rhoades before the house committee on science on June 5, 2003 in response to the "china problem" Mr. Rhoades stated "just buying capital equipment is not enough. We need new ways to make things, new technologies for manufacturing. Our manufacturing enterprises must have dependable guidance in changing how they make things—not just advice on the technologies, but help in understanding the implications of those technologies on the business practices that organize production."

[27] *Ibid.*
[28] *Ibid.*

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Solution #2: Remove the barriers that limit the extent to which SMEs can do business with the federal government and its major suppliers.

- The Administration's action to appoint an Under-Secretary of Commerce with the mandate, among other things, to reduce the bureaucratic burden on these businesses – is a great first step.
- This should be followed by seriously considering the recommendations of the 2003 report of the National Research Council titled "Equipping Tomorrow's Military Force".
- This report discusses a new collaboration between commercial and military consumers of technology and manufactured goods to fill the urgent needs of the defense network, to reestablish domestic sources of supply, to take advantage of economies of scale represented by commercial markets, and to help rejuvenate manufacturers who can service both groups.
- A key recommendation in the Council's study is the need to educate military procurement personnel on how the commercial marketplace operates.
- The Council also suggests that military procurement personnel need to be re-educated on the federal Acquisition Streamlining Act of 1994 which called for the executive branch to place heavy emphasis on the acquisition of commercial products and services to the maximum practical extent.
- Despite some successes, the Council found that DOD has yet to realize the full potential of buying commercial products in part due to cultural reasons. To fulfill this training, the Council suggests a kind of virtual university that teams commercial buyers with federal procurement officers to bolster training and education that emphasize the commercial marketplace.
- Additional training is crucial also for those engaged in design and production. Although the manufacturing workforce has been decimated there is a growing need to find employees who have advanced skills and technological expertise to meet the challenges of innovative new products and processes.
- This is another area in which Maine MEP has had some significant success. The Advanced Manufacturing Coalition suggests the need to integrate industry-led skill standards into education and training programs, expand certification programs, and capitalize on the enhancement processes that the MEP system delivers.

Solution #3: Facilitate entry of SMEs into the defense supply chains

- We must enable SMEs to assume larger roles in fully integrated supply chains that can provide DOD and major defense contractors with access to a wider array of suppliers, and expand opportunities available to smaller suppliers.
- Maine MEP is leading a collaborative between the six New England MEP centers designed to enhance DOD access to U.S. suppliers, as well as provide small U.S. suppliers with expanded access to defense procurement opportunities.

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- We are developing a proprietary database which will match the capabilities of SMEs with specific procurement requirements. Shortfalls between the abilities of individual SMEs to meet the requirements will be mitigated by teaming together SMEs with complementary skills or production capacity, and the MEP centers will work with individual SMEs to ensure that they can optimize their ability to meet defense requirements.

Solution #4: Continue support for the national MEP program

- There are three value-adding components to our economy – mining, manufacturing and agriculture.
- The agricultural extension program has been funded at levels of $900-million annually, and has paid off by ensuring that the U.S. agri-business infrastructure is the breadbasket of the world.
- On the other hand, the impact of manufacturing on the larger economy exceeds that of agriculture by three-fold, yet the manufacturing extension program is fighting to retain its modest annual $100-million federal funding.
- Continued support for this proven, performance based program is paramount to bolstering the economic viability of the SME community.

These solutions must be implemented as soon as possible because the window of opportunity is closing rapidly.

- SMEs that are hanging by a thread because of the lack of new markets and decreasing sales will shut down and the lost jobs will never come back.
- Moreover, we are inevitably reaching a point of no return when the U.S. would become a nation of consumers. Such a status would present a national security risk because the U.S. would be subjected to the whims of exporting nations who may decide to delay or eliminate shipment of badly need consumer products or military hardware when they disagree with our policies.

In closing I would like to quote a critical concluding statement I recently read in "Securing America's Future: The Case for a Strong Manufacturing Base", a 2003 report prepared for the Council of Manufacturing. **"If the U.S. manufacturing base continues to shrink at its present rate and the critical mass is lost, the manufacturing innovation process will shift to other global centers. Once that happens, a decline in U.S. living standards in the future is virtually assured."**

The men and women, who go to work every day to build the hardware of our economy, from state-of-the-art consumer products to sophisticated systems of communication, transportation, medicine, technology and defense, deserve nothing less than simple human dignity: the chance, everyday, to build wealth – for their families, for our state and for our nation.

RODNEY P. RODRIGUE
PRESIDENT AND CEO
MAINE MANURACTURING EXTENSIP PARTNERSHIP (Maine MEP)

Senator Snowe, you have been a consistent champion for small manufacturers and for the MEP system, and for that we remain extremely grateful. Much of what we have been able to accomplish is attributable to your leadership, and that leadership has never been needed more than it is right now.

With your leadership, we are confident that solutions to bolster Maine's and the U.S. small manufacturing community will be pursued with a passion for commitment and an entrepreneurial approach that is necessary to achieve success.

Thank you for the opportunity to speak to your panel.

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Chair SNOWE. Thank you, Rod. I appreciate it. Thank you for coming.

Randy Cousineau.

STATEMENT OF RANDY COUSINEAU, OWNER AND PRESIDENT OF COUSINEAU, INC., NORTH ANSON, MAINE

Mr. COUSINEAU. It looks like this chart—that we are here because we are losing jobs in Maine—and it looks like we've lost 18,000 jobs in the last 3 years, or 22 percent. That's about 22 percent. And somewhere in 11 to 12 years, we'll have no manufacturing jobs left. Zero. And I can't speak for other manufacturing things, but I can for lumber and dowels.

We are 70 miles, where we are located from the Canadian border—two Canadian borders, actually, because the Jackman/Armstrong and Coburn Gore—and they have different rules than we do. They have no workman's comp. They have no insurance. In our small company it costs us $40,000 per month to have those two things that we pay. They have power at three-and-a-half-cents a kilowatt. Our power here in Maine is somewhere between 8 and 14 cents a kilowatt. Our power bill, in our company, is $22,000 a month. If it was three-and-a-half cents, it would be $8,300.

They have a help. If you take a log up there and you produce it into lumber, the government will help pay the labor force to produce lumber for manufacturing jobs. They also have a machinery—if you take a piece of machinery, if a company makes a piece of machinery and it doesn't work properly or it can be improved, you submit a form and the Canadian government will pay money or will pay the rest of the money to help make that machinery improve so it does a better job.

There is no duty on our logs going into Canada, at all, or lumber coming back out of Canada. And we, the Maine people in sawmills, cannot work and buy logs for the same price as the Canadians do, because they have so many advantages, more than we do.

Last Tuesday, our mill shut down at 2:30, because we ran out of logs. And I went over to pick my son up, Joey, in Kingfield and took him to the dentist. And it's 18 miles from Kingfield to Farmington on Route 27 going to Coburn. And I met six tractor trailers full of oak logs. And that's about 35,000 wood feet and that would have lasted our crew, or our mill, for ten hours to saw. Obviously, it was on my mind, but that's not uncommon.

Every time you travel that route or the Jackman route, you'll see hardwood logs going into Canada. So our Maine logs are going to Canada. We're not providing any jobs, or less jobs, because we have not the logs to produce the lumber.

We are now, currently, down to 4 days a week because we are low on logs. We are getting them as far as Massachusetts. We're not the only mill. There are two other mills right next to us, or right within 50 miles, that are down to 4 days a week also. And it sounds like I am against Canadians. We've done a lot of business with Canada and with a name like Cousineau you can't be against Canadians. But we just need to get—either we need to do what they do or they need to do what we do.

And then the other thing that won't be so easy to cure is the Asian market or Russia. We have a company in California, our biggest company in California, that was buying two loads of birch a year—a week—off of us last year, all through 2002 and half of 2003. And now they are getting the Russian birch, balsam birch, from Russia and they are bringing two loads a week in over there. And we are not shipping any.

The Russians provide the timber for nothing for the sawmills to have jobs. They work at $4 a day, approximately $20 a week. Our labor force, with benefits, is averaging $648 a week and, obviously, he can buy it for like half-price than what we can sell it to him for.

Thank you.

[The prepared statement of Mr. Cousineau follows:]

COUSINEAU INC.
P.O. Box 58
North Anson, ME 04958
1-207-635-4445
Fax: 1-207-635-4440

The loss of manufacturing jobs as a whole, and not just in the lumber industry, is the largest problem facing Maine today.

70 miles up the road from Cousineau Inc. is the Canadian border where employers don't have to pay workers compensation or health insurance on their employees. Lumber mills receive a government subsidy from their Canadian government. Cousineau Inc. pays $40,000 each month for workers compensation insurance and health insurance. Cousineau Inc. receives no subsidy from our government.

Canada pays more money for logs because they do not have the same expenses to consider. There is no duty for taking our hardwood logs into Canada as well as no duty for bringing the sawn lumber back from Canada into the United States. Last Wednesday I drove from Kingfield to Farmington which is 18 miles. I met six loaded trucks with Oak logs headed into Canada. My mill had to shut down last Wednesday because we had run out of logs. These 6 loads of logs would allowed my 40 employees to work for a full day.

The Canadian government encourages the development of machinery. If a mill develops a machine to improve their productivity and it doesn't work, the government will provide them with financial resources to solve their problems. The Canadian government owns about 80% of the timberland in Canada which is about reverse in the United States. Canada can control the economy by pricing less for the timber stumpage which is a renewable resource rather than pay unemployment.

The Asian market is another major cause of the United States losing manufacturing plants. The labor force in Asia works for $4 per day.

Our largest customer from California is now bringing birch lumber in from Russia by ship. This Russian birch is 60% cheaper for our customer. Russia pays their labor force $4 per day which enables them to sell to our customers at 60% less than we can.

The solution is simple:

A duty must be imposed so than other governments cannot bring their products into the United States for 60% less because they pay their labor force $4 per day .... or................... the citizens of the United States need to figure out how we can start surviving by paying our work force $4 per day.

Chair SNOWE. Thank you, Randy, very much, for telling your story. And I think that listening to all of you so far dramatically illustrates the challenges that you face on a daily basis as small businesses, just wanting to do your job and keep your people employed in doing what you set out to do when you started your business or to continue the business. That's why I appreciate your being here today and sharing your stories.

Allen Cairns.

STATEMENT OF ALLEN CAIRNS, MANAGING PARTNER, CREATIVE MOLD COMPANY, AUBURN, MAINE

Mr. CAIRNS. Thank you, Senator Snowe, for the opportunity to speak today and thank you for your grasp of the situation and your enthusiasm for searching for solutions.

Our firm, Creative Mold Company, manufactures custom-made molds, primarily for the footwear in military industries but, also, for automotive, medical and other industries. Basically, we make the molds for final finished products which are made out of rubber and plastic. We are, effectively, a domestic production company with domestic customers. Probably 90 percent of our production stays within the United States. So, for us, foreign trade is sending a completed mold to Vermont. We have several customers who work with us making military boots. We provide the molds for those companies. We are also working providing molds for a product that will be used by military personnel in the field—and for us that illustrates a very, very important point which is, if we lose domestic manufacturing capacity, we give up a great deal of domestic security by not being able to produce vital and needed goods at the time that we may need them. And so, for that reason, I think, we need to, as a country, make a decision that we have to have a vital domestic manufacturing capacity. Whether they are in all industries or certain industries is certainly open to question.

There is not a lot that I can add that hasn't already been said today, but I'd like to put some of our comments or some of our observations, perhaps, in a larger perspective which, probably, if anything, illustrates why it's going to be difficult to solve the problem. Generally speaking, I think we all understand that we are in a capitalist society and, given that, to pursue a profit is important for us. All of us on this panel are owners of small businesses and maintaining those as vital entities means that we have to be profit-making enterprises. So the pursuit of profit is a natural and fully expected dynamic and really not a bad thing in and of itself. But what we find is the market has a life of its own and right now we are finding what the implications of the market are. When the dynamics are set in play for profit-making to be maximized, we have to look for the lowest cost commodities, lowest prices and so forth in terms of how we can manufacture.

What we've seen over the last few years has been probably the final wringing out of the efficiencies in our country of a great deal of—certainly using machines and industrialization, but also computers, telecommunications and so forth. And all those capacities have been exported. They are no longer a competitive advantage of ours. They have been expropriated and used and thoroughly integrated. And, actually, there can be an argument that the newer the market, the more efficient they are going to be because they don't have the old baggage to overcome. So, effectively, we are reaching a diminishing effect of using computers and other technologies as competitive factors. And so given that, I think, what we are finding is labor becomes one of the last drivers of how a company may be profitable, and given that, you have to go where the labor is cheapest—and where the labor is cheapest is China, India, South Korea, Brazil and other countries as well.

So, unfortunately, what we find is there are two fundamental paths or dynamics that we are going to look at or that we need to focus on. One is cheap labor and the second is the opening up of very large new markets. Many of those are more important for large manufacturers than they are for small manufacturers. And, unfortunately, what we may find out is, depending upon whose perspective you take, some of these dynamics are positive and some of these dynamics are extremely negative. And you have to look at it on a short-term basis and a longer-term basis.

One of my concerns is what do we mean when we talk about a level playing field. That's a term that is bandied about and included in every conversation of international trade. I am not sure we all agree on what that means. A level playing field certainly means playing by the rules of the World Trade Organization and other requirements that our countries have agreed to and must follow. But when all those things are fully implemented and we have achieved a level playing field, how do we compete when the minimum monthly wage in Beijing is $51 U.S. per month, and Shanghai is $61, and Quang Shu, which is a major manufacturing area is $62 per month. The average monthly wages for low skilled employees in China are $100 per month U.S., factory supervisors are $187, clerical staff $185 to $200 U.S., junior executives with university degrees, $187 to $250, and mid- and high-level executive managers, $437 to $750 U.S.—quite as dramatic.

There is a definite, well-educated professional class of engineers, architects, accountants, and so forth, who will work for roughly 1/5 what U.S. salary levels are. How do you compete against this when labor becomes an important aspect of the finished product, and in my business that is exactly what is happening? We can and have computer, numerical machines which can operate by themselves for hours at a time, cutting pieces of aluminum. But the flip side of it is—we still need to pay American workers living wages.

So, to finalize in terms of my observations, we really need to look at the differences and the effects of large companies versus small companies, because I believe the dynamics are entirely different—as well as the long-term effects on this country versus the short-term effects. The short-term effects are the importation of lower-priced goods. The long-term effects are the transmission of our technology and manufacturing infrastructure to another country. We need to look at it from a point of view from consumers, point of view from shareholders of companies, and as employees—and then, finally, as citizens of the United States where our security interests may be at risk. And we all wear different hats at different times.

[The prepared statement of Mr. Cairns follows:]

Employee Stakeholders, Corporate Shareholders, and the Unfolding of International Capitalism

Introduction

My name is Allen Cairns. I am Managing Partner of Creative Mold Co., LLC.

Thank you for the opportunity to speak today and to try to convey to you the current economic dynamics of U.S. manufacturing from the perspective of a small business in Maine. There is little I can add to the current debate that hasn't already been said, except possibly to outline how the current international trade environment affects a specific Maine-based employer and its 12 employees. I will try to put it in the perspective of the natural progression of profit-seeking enterprises (which I represent as an owner of a small business) and within the context of small employers versus large employers.

Our firm manufactures custom made low pressure molds for the footwear, military, automotive, medical and other industries which make various products out of soft plastics such as polyurethane, PVC, rubber, etc. The molds are designed by engineers in our office using various CAD/CAM software and then cut out of blocks of aluminum or steel and provided to the client who actually manufactures the parts for which we make the molds.

We have 12 employees in Auburn, ME, with an average length of service of approximately 15-20 years. 3 are manufacturing engineers, 4 are trained machinists, 2 are administrative support, and 3 are partners who are primarily responsible for new business development. Average earnings are approximately $45,000 per year, which is very good by Maine standards.

Our business was an offshoot of the domestic shoe industry that had a substantial presence in the State of Maine, and in the Lewiston-Auburn area in particular. Our traditional customers have disappeared as shoe production has moved to Mexico, the Dominican Republic, China, India, etc. Five years ago our company employed 20 employees. Three years ago we employed 16 employees. Today we are at 12 employees.

We have several customers for molds to make soles and other pieces for military boots. Last week alone, $90,000,000 in contracts for military footwear was awarded to 5-6 domestic shoe manufacturers. All of them are in our active customer base and we have been in discussions with each of them to have the opportunity to manufacture molds for the boots flowing from these specific orders. These companies are also small, closely held manufacturing concerns.

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We are also currently producing several molds for plastic and rubber parts for devices to be used in the field by U.S. military personnel.

This single military sector customer base is important as it supports a point that I would like to emphasize: that the U.S. must maintain manufacturing and productive capacity for critical industries and products.

Common Observations and Known Realities

Below I have outlined some common points that are made when discussions of current manufacturing and foreign competition come up. I am sure you have already heard them. They are well-documented facts that still need to be expressed and repeated, lest they become of no consequence:

Manufacturing has historically been the strongest foundation for the enviable U.S. standard of living.

Americans are quite willing to compete internationally wherever there is a level playing field.

Unfair trade practices restrict export of U.S. products to other countries.

There is a real danger of a relying on closed societies for production of important goods.

Reliance on non-democratic countries for production undermines our own commitment to democratic principals by providing financial resources that support those restrictive regimes.

China displays significant disregard for intellectual property rights.

Unfair monetary practices and artificial currency values are unfair competitive advantages. This is especially the case in China.

The possible eventuality of a U.S. economy as one based on a service economy does not bode well for long-term economic vitality and self-sufficiency.

There is a definite lack of level playing fields in terms of living conditions, working conditions, child labor, human rights, health insurance and medical care, environmental considerations, etc. with those who are leading our list of import/export imbalances.

By pursuing the logic of finding the lowest cost labor, large multi-national U.S. corporations are perpetuating the exploitation of labor.

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Chinese requirements that to sell in China a company must also produce in China are unfair restrictions on trade.

Our country is losing large numbers of manufacturing jobs every day, and has been for the last 2-3 years. The New York Times reported just this weekend (October 5, 2003) that perhaps as many as 995,000 manufacturing jobs have been lost to other countries since the recession began in March of 2001.

We are possibly at the beginning of a jobless recovery from the most recent recession that reflects the dynamics of loss of manufacturing jobs.

A huge deficit in our balance of trade is not a good thing for this country.

Observations from a Small Mold-Making Company

I would like to put the remaining portion of my outline in the perspective of two overlapping categories - Shareholders versus Stakeholders - and Large Companies versus Small Companies - and how those particular interests may be at odds. Think about how the dynamics of the problems and the solutions are quite different when viewed from within either of the following cells:

	Large Multi-National Corporation	Small Business
Shareholders or Owners	1	2
Employee stakeholders	3	4

Each of the dynamics also needs to be placed in the context of what is in the best interests for our country long term.

Shareholders of publicly held companies pursue profit, often to the exclusion of nearly any other consideration. Shareholders expect and demand that publicly traded companies maximize profits. On the other hand, employee stakeholders focus on more immediately pressing needs to earn and maintain a reasonable strong standard of living, to preserve a strong manufacturing base for our country, and to contribute to a vital economy for themselves and their children.

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Shareholders' massive resources threaten stakeholders' livelihoods through the logical pursuit of identifying and locating the cheapest costs for production. In the short run, this makes sense economically, but in the long run could very well contribute to the demise of U.S. based manufacturing which, in turn, makes us dependent upon foreign production capacity and political whimsy.

We should also review the current situation by viewing the U.S. itself as a stakeholder. The U.S. is slowly ceding its international dominance by following the inherent capitalist imperative to maximize profits. But the long-term consequences may be negative in terms of our productive infrastructure. Within 2 generations, possibly less, the U.S. may have little remaining significant industrial or manufacturing capacity. I do not believe that this is in the best long-term interest of our country.

From the point of view of the country as stakeholder, the long-term implications are to give away intellectual and productive capacity to countries that we may or may not be able to depend upon. As an example, many of the dynamics in the Middle East can be traced to our dire need to maintain a steady flow of oil. Imagine what it would be like if we had the same situation with regard to production of computers, steel, automobiles, and other products that are necessary to the survival of our economy. What do we do when China raises their walls again and holds us hostage to purchasing products from them after we have willingly transferred and given away our intellectual capital and eliminated our domestic manufacturing base?

Are we a stronger and more independent country if we manufacture needed goods or if we merely distribute goods made elsewhere?

The small-picture dynamics are not the same as the large-picture dynamics. Our employees average 15-20 years of service. They have been loyal, productive employees. In turn, we have been loyal employers who have trained them and compensated them well. How do you tell these loyal and hard-working employees that you may have to purchase goods made elsewhere for your customers instead of the same quality products they have been producing for years? And that sooner or later we may have to eliminate their jobs because they are merely commodities? How do you tell them their skills are obsolete? That their wages (entirely reasonable by U.S. standards) price them out of the international marketplace? Where do you tell a 55-year-old machinist to go to retrain for the remainder of his career?

I considered bringing all of our employees to this hearing today to tell their stories and to hear your responses, but decided it would be too discouraging for them and possibly too uncomfortable for everyone.

As a small business owner, it would be easy to give in to the trend for offshore and Far East manufacturing. Our role would become one of brokers for products manufactured elsewhere, possibly product designers, or possibly managers for projects to be produced elsewhere. This is not an unreasonable resolution to the problem from the business owner's point of view, and possibly from the point of view of some of our engineers

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(although current dynamics are to move large numbers of engineering and accounting jobs to India where well-educated and trained labor is perhaps one tenth that of the U.S.). But from our shop floor employee stakeholders' point of view, this is disastrous.

How can we avoid creating a mistrustful class of formerly well-paid employees who do not want handouts, but who may be forced to look for significantly lower-paying jobs, while, simultaneously, they read of corporate executives personally reaping millions from the benefits of putting them out of work. The domestic political consequences are real and must be considered.

What do we do when American students recognize the futility of pursing training in fields directly related to manufacturing?

What will remain when the show is over?

Where or how can we compete in circumstances where the U.S. no longer has the lead in being able to maximize production from the implementation of computer technology and telecommunications? We can compete locally via quality of product, timely delivery, ease of doing business, knowledge of the customer, and personal contact with our customer. These are indeed important and tangible benefits. Unfortunately, today's cost-focused environment often does not put a dollar premium on these advantages that is large enough to overcome the effects of nearly free labor in other countries.

What we find somewhat interesting is that the large labor price differential between China and the U.S. should create a much larger final retail price differential, but in reality the difference is sometimes not that great. This means there is a larger profit somewhere along the way, which, of course, is the inner logic of a capitalist system and which is good for shareholders. But again, this is not good for American workers. Must we chose ONLY between lower-priced products OR well-paying jobs?

Here are some specific examples that I have personally heard in the last six months:

My company has had a number of customers reject our proposals and select China for the production of new molds merely (we are told) based on price. For example, Monday morning of this week I received an email from one of our engineers who said that he spoke with one of our prospective customers on a current quote, and was told that his customer was pushing our customer and that we needed to "reduce the price or we go to China."

A Maine based company opened a department in China and introduced its employees to their international customers. The China operation subsequently went directly to those customers, bypassing and effectively eliminating the company that made the initial introduction and was initially responsible for setting up the China operation.

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At a trade show for the footwear industry that I attended this summer, the word "China" was probably the most frequently heard term after the word "shoe."

At the same trade show I personally met a Taiwanese exporter whose labor cost is $200 per month per employee and he was moving some of his production to Mainland China.

I have heard of production firms located in Mexico transferring their production enterprises to China or India.

I have actively tried to find out what programs are available to assist small businesses in their manufacturing endeavors, and have found more programs oriented toward assisting technology and telecommunications, biological and medical industries. There appears to be very few resources available to assist existing small business in industries that are not growth-oriented or "new wave." Protecting mature, traditional enterprises seems to have been discarded.

There is a major disconnect in the unfolding of the natural imperatives of large, international companies to seek to maximize profits for its shareholders as opposed to the practical effects that it may have on employees of small-businesses whose jobs are threatened by this dynamic.

As the post-industrial world continues to develop, and as we have wrung out much of the efficiencies of the use of machines, then computers, then advanced telecommunications, we are steadily marching toward an end where the actual cost of labor (which began the dynamic of the move to industrialism to begin with) becomes the final distinguishing commodity cost. A smart commodity purchaser will find the lowest price. When labor is the final variable cost internationally, production will move to that area. Hence, India and China are now rapidly becoming destination manufacturing and processing centers. Advanced societies have seen their standard of living increase the cost of production and now will suffer for it.

Shareholders of large multinational corporations will benefit from reduced manufacturing costs which increase profits, as well as from being able to sell products in newly opened countries.

From a small business owner's point of view, the deck is stacked: tax privileges for profits earned abroad make little difference to small business owners, as most small business owners still receive the bulk of their business from U.S. customers.

Are small businesses and their employees going to be sacrificed as large companies pursue shareholder profits (as they must) by two tremendous opportunities: cheap labor and the opening of massive new markets.

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How divisive or important are the discrepancies in the dynamics and consequences of large versus small companies?

In the end we must decide what results we want as a country. Do we want to maintain domestic production capacity in certain industries as necessary to protect ourselves? Where are we at risk if we export intellectual capital, manufacturing infrastructure to countries that are not democratic, that are closed, that do not honor international copyright, trademark rights, customer relationships, etc.

Why are we willing to tolerate an unfair monetary policy which further reduces costs of production?

Where do unfair trade practices fit into the equation?

Why are domestic tobacco and other agricultural products supported by subsidies when critical manufacturing enterprises are allowed to flounder?

<u>What to do?</u>

Many ask what can our government do to remedy or address this situation. The real question is whether or not our government is willing to identify economic sectors that are critical to our country's well being and to ensure their survival.

Do we want to maintain manufacturing capacity in this country? If so, in what industries?

Below are just a few thoughts that quickly come to mind in terms of how to deal with the situation, again from the perspective of the small business manufacturing perspective. The solutions most likely are quite different for small companies than for large companies.

Subsidized training to encourage and assist young people to pursue manufacturing-related training and education.

Subsidized re-training for displaced mature manufacturing employees.

Government assistance in the manufacturing processes – best practices consulting, etc.

Active monitoring human rights in other countries

Active monitoring of fair trade issues

Requiring fair international monetary policies

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Consideration and assessment of U.S.'s need for domestic manufacturing capacity

Requiring domestic manufacturing capacity for critical industries

More rapid response from government, as the market dynamics move faster than political interests can effectively respond to.

Once again, I sincerely appreciate the opportunity to present one view from the perspective of one small manufacturing business in the State of Maine. Thank you.

Chair SNOWE. Thank you very much, Allen.
John Wentworth.

STATEMENT OF JOHN WENTWORTH, PRESIDENT, MOOSEHEAD MANUFACTURING, MONSON, MAINE

Mr. WENTWORTH. Thank you very much, Senator Snowe.

My name is John Wentworth and I am the President of Moosehead Manufacturing Company, a solid hardwood, residential, case goods manufacturer headquartered in Monson, Maine. My primary hat today is of President of Moosehead, but I left off my bio that I also sit on the Board of Directors of the Maine Wood Products Association, which represents 200 wood products manufacturers in the State of Maine, and the American Furniture Manufacturers Association, of which I don't dare guess how many today remain.

I would like to thank you for this opportunity on behalf of the 200 working men and women who work at Moosehead on a daily basis.

Moosehead is a nationally-recognized brand known for its high value and quality. We produce our products in two facilities, located in Monson and Dover-Foxcroft, and use select hardwood logs harvested primarily from our own neck of the woods. We take great pride in the fact that we use the entire log. Our plants and dry kilns are heated with the bark and sawdust produced in our own operations. No fossil fuels are used for heat or processing. Moosehead goes to great lengths to ensure that our facilities are safe and pleasant workplaces, with a safety record admired by many in the wood products industry. I am proud of the craftspeople at Moosehead.

I was asked to share with the Committee some of the problems facing Moosehead Manufacturing and other small business manufacturers. While the challenges of running a natural resource-based manufacturing company may be numerous, there are three areas that I would like to highlight. They are: The costs, intended and unintended, of government rules and regulations; The cost of providing health care to our employees; and the effect of cheap imported furniture on the U.S. furniture industry.

When it comes to regulations, small companies find it extremely difficult to allocate expensive human and financial resources on new rules and regulations. On top of complying with a myriad of existing regulations on the State and Federal level, including OSHA, EPA, and the Consumer Product Safety Commission, for example, the industry is facing new regulations on the emission standards on our wood-fired boilers. As previously mentioned, many wood product manufacturers operate wood-fired boilers that burn scrap wood left over from the production process to heat the facilities and prepare kiln-dried hardwood lumber for the production operations. If unrealistic or excessive emission rules are imposed on our industry, the American Furniture Manufacturers Association (AFMA) estimates the cost would be between $500,000 and $1,000,000 per boiler—or we would be forced to pay to have these materials sent to a landfill and buy fuel oil for heat and processing—which, in my opinion, would have little environmental value.

The second issue I would like to share is the out-of-control cost of providing health care. The owners and managers of Moosehead Manufacturing Company believe that the health care insurance is the most important benefit we provide our people. We offer company-sponsored health insurance to our employees and their families for a very low weekly premium. Because we have a self-funded plan it is in our best interest to help our employees remain as healthy as possible. A company nurse, employee assistance personnel, wellness programs, exercise programs, smoking cessation aids, free health screening, and even premium reimbursements for healthy behavior and lifestyle changes are a part of our total health care program. Despite these efforts, costs continue to rise at an alarming rate. Many smaller companies cannot afford to offer this very important benefit. Senate Bill 545, which I believe you sponsored, Senator Snowe, is a big help for many of the smaller Maine wood products associates and hopefully this will pass quickly. As a side note, in 2002 and in 2003 Moosehead will spend half as much for health care as it does for all the wood it takes to build its furniture.

These two issues that I just touched on very briefly are issues that Moosehead, along with all our domestic partners, have to deal with. Manufacturers in Vermont, manufacturers in North Carolina, manufacturers in Michigan, all have to deal with health care and all have to deal with regulations. Undoubtedly, though, the most significant factor affecting the industry is imports from foreign countries where you do not have to deal with the same regulations that we do. And this is where, in my opinion, the greatest danger arises.

The combination of $2-a-day labor, lower environmental standards, and the manipulation of currency values has made China the dominant producer of wood furniture in the world. Approximately half of all the case goods sold in the United States today are imported. And 40 percent of those are of Chinese origin.

I cannot stand, or in this case sit, before you today and say that all furniture manufacturers are in agreement on the nature of the problem or the appropriate solutions. Among the members of the American Furniture Manufacturers Association, there is great diversity in the opinion about sourcing overseas. Many companies have closed domestic furniture factories and are themselves buying product from the Pacific Rim countries. This is not something that they enjoy doing, but is something that simply is done to keep their companies viable and to preserve as much of their domestic operations as they can. There are no easy answers to this situation. It is one that has played out in other industries, such as textiles and shoes.

I believe one thing we can all agree on—that foreign producers should adhere to the international laws and trading regulations. Below cost selling—i.e., dumping—does not represent free or fair trade. Moosehead is one of 31 companies that make up the American Furniture Manufacturers Committee for Legal Trade. We are petitioning the International Trade Commission and the U.S. Department of Commerce to determine if China is dumping bedroom furniture in the United States. We are not asking for tariffs or duties on fairly-traded products. However, a report by the AFMA indicates that residential wood furniture from China is being dumped into the United States.

I would like to ask that the International Trade Commission and the International Trade Association be properly equipped, financially and otherwise, to administer and enforce the Nation's antidumping laws and provide relief to domestic industries that have been injured by unfair trading practices. I also await the Bush Administration's recommendations for strengthening domestic manufacturing.

On behalf of Moosehead, the Maine Wood Products Association, and the American Manufacturers Association I thank you for the opportunity to address the Committee.

[The prepared statement of Mr. Wentworth follows:]

Testimony - "Small Business Manufacturing in a Global Market"
Field Hearing Location: Lewiston, Maine
Hearing Date: Thursday, October 9, 2003

Name: John E. Wentworth
Title: President
Organization: Moosehead Manufacturing Company - Monson, Maine

My name is John Wentworth and I am the president of Moosehead Manufacturing Company, a solid hardwood, residential case goods manufacturer headquartered in Monson, Maine.

I would like to thank you for the opportunity to address this committee on behalf of the 200 working men and women who create our furniture. Moosehead is a nationally recognized brand known for its high value and quality. We produce our products in two (2) facilities, located in Monson and Dover-Foxcroft, and use select hardwood logs harvested primarily from our own "neck of the woods." We take great pride in the fact that we use the entire log. Our plants and dry kilns are heated with the bark and sawdust produced in our own operations; no fossil fuels are used for heat or processing. Moosehead goes to great lengths to ensure that our facilities are safe and pleasant workplaces, with a safety record admired by many in the wood products industry. I am proud of the craftspeople at Moosehead and the products they produce.

I was asked to share with the committee some of the problems facing Moosehead Manufacturing and other small business manufacturers. While the challenges of running a natural-resource-based manufacturing company may be numerous, there are three areas that I would like to highlight. They are:

1. the costs, intended and unintended, of government rules and regulations
2. the cost of providing health care to our employees
3. the effect of cheap imported furniture on the US furniture industry

When it comes to regulations, small companies find it extremely difficult to allocate expensive human and financial resources on new rules and regulations. On top of complying with a myriad existing regulations on the state and federal level - including OSHA, EPA, and Consumer Product Safety Commission - the industry is facing new regulations, such as a costly new emission standard on our wood-fired boilers. As previously mentioned, many wood product manufacturers operate wood-fired boilers that burn scrap wood left over from the production process to heat facilities and prepare kiln-dried hardwood lumber for the production operations. If unrealistic or excessive emission rules are imposed on our industry, the American Furniture Manufacturers Association (AFMA) estimates the cost would be between $500,000 and $1,000,000 per boiler or we would be forced to pay to have the materials sent to a land fill and buy fuel oil for heat and processing which would have little environmental value.

The second issue I would like to share is the out of control cost of providing health care. The owners and managers of Moosehead Mfg. Co. believe that health care insurance is the most important benefit we provide our people. We offer company sponsored health insurance to our employees and their families for a very low weekly premium. Because we have a self-funded plan it is in our best interest to help our employees remain as healthy as possible. A company nurse, EAP, wellness programs, exercise programs, smoking cessation aid, free health screening, and even premium reimbursements for healthy behavior and lifestyle changes are apart of our total health care program. Despite these efforts, costs continue to rise at an alarming rate. Many smaller companies cannot afford to offer this very important benefit. Senate Bill 545, sponsored by Senator Snowe, which would allow trade and professional associations to offer a health care program for its members, is a great step in helping small businesses offer health care to their employees. As a side note, in 2003 Moosehead will spend half as much for health care as it does for wood to make all of its furniture.

Undoubtedly, though, the most significant factor affecting our industry is the flood of imports from low-wage countries of the Pacific Rim, most notably China. The combination of two-dollar-a-day labor, lower environmental standards, and the manipulation of currency values has made China the dominant producer of wood furniture in the world. Approximately half of all the case goods sold in the US today are manufactured overseas. I cannot stand before you today and say that all furniture manufacturers are in agreement on the nature of the problem or the appropriate solutions. Among the members of the American Furniture Manufacturers Association, there is great diversity in the opinion about sourcing overseas. Many companies have closed domestic furniture factories and are themselves buying product from the Pacific Rim. This is not something that they enjoy doing but is something that simply is done to keep their companies viable and to preserve as much of their domestic operations as they can. There are no easy answers to this situation. It is one that has played out in other industries, such as textiles and shoes. One thing I believe we can all agree on is that foreign producers should adhere to the international laws and trading regulations. Below-cost selling (ie "dumping") does not represent free or fair trade. Moosehead is one of 31 companies that make up the American Furniture Manufacturers Committee for Legal Trade. This group is petitioning the International Trade Commission (ITC) and the US Department of Commerce to determine if China is dumping bedroom furniture in the United States. We are not asking for tariffs or duties on fairly traded products; however, a report by the AFMA indicates that residential wood furniture from China is very likely being dumped into the United States.

I would like to ask that the International Trade Commission and the International Trade Administration be properly equipped, financially and otherwise, to administer and enforce the nation's anti-dumping laws and provide relief to domestic industries that have been injured by unfair trading practices of other nations. I also eagerly await the Bush administration's recommendations for strengthening domestic manufacturing. I appreciate this opportunity to address the committee.

Respectfully submitted,

John E. Wentworth, President
Moosehead Mfg. Co.

Chair SNOWE. Thank you, John. Has this petition been filed?

Mr. WENTWORTH. It's in the process of being filed.

Chair SNOWE. Okay.

Mr. WENTWORTH. And by the end of this month, it should be filed. It should be filed by the end of October.

Chair SNOWE. Okay. Thanks.

Bernard Featherman.

STATEMENT OF BERNARD FEATHERMAN, CHAIRMAN, BIDDEFORD-SACO CHAMBER OF COMMERCE AND INDUSTRY, AND PRESIDENT OF SOUTHLAND STEEL CORPORATION, BIDDEFORD-SACO, MAINE

Mr. FEATHERMAN. Senator Snowe, distinguished presenters and guests.

My name is Bernard Featherman. I am a past president of a family-owned, small business manufacturer of steel storage equipment products. As an entrepreneur, I was inducted as a lifetime member of the Institute of American Entrepreneurs in 1990. I reside in Maine with my wife, Sandra. I am here today as the Chair of the Manufacturing and Industry Group of Biddeford-Saco Chamber of Commerce, representing our small manufacturers.

Let me say Maine is noted for its pristine air, clean lakes, wonderful forestry and fine resorts. It has a low cost-of-living, amply-priced housing, fine educational institutions, and the quality of life opportunities to induce entrepreneurs and small manufacturers to locate here.

The question I am most asked is, "How do you find business?" Well, I am not quite sure how to respond. In one sense, good. Another, improving. Yet, with cautious optimism, we are not out of the woods, so to speak. Small manufacturers were down almost 40 percent or more in sales volume in 2001. The last 12 to 24 months saw a collapse of the price structures as a result of a customer-driven market, of which we still find today.

Statistically, a non-profit small business advocacy group in Washington found Maine to be ranked 48th lowest amongst the States with the worst small business policy climate. Most small businesses in Maine find this to be true. Why is Maine so unfriendly to small businesses? Many existing businesses feel the need for a more business-friendly climate by our local politicians. It is troubling to hear the impressions stated by a majority of businessmen and women, both from small and large businesses in other fields locally, who have expressed similar feelings.

Local municipalities and the State government in Maine impose a high tax burden on small businesses and entrepreneurs, such as personal income and tax rates, State and local sales taxes, gross receipts and excise taxes, high electric utility costs, and increased health care costs. Even unemployment taxes are out of whack. Perhaps this unfriendly business atmosphere is unwarranted, but the facts suggest otherwise.

Unfair imports continue to erode our manufacturing base. It is estimated by year 2015 the total manufacturers in the U.S.A. will drop to 10 percent of all kinds of businesses.

Here are some of the important concerns affecting small manufacturers in our area of Maine. And I'll go over them because of time: Federal Grants; Health Care Issues; Federal Liability Reform; Creative Financing and Capital Assistance; A National Energy Policy; An International Trade Policy; and IRS Tax Revisions.

And I'll go through these as quickly as possible.

The Federal Grants are needed to train the untrained in their workplace employment, and it has to be increased. Present employees need to be upgraded.

We need continuing education in technical schools and colleges in order to upgrade our students into higher skilled jobs through training grants. We can retool older workers or upgrade them into higher paying jobs, or into their own entrepreneurial small businesses. New jobs can be created. We should encourage entrepreneurial education. As a side note, Maine graduates one of the highest percentage of high school students of any State, but over 60 percent of those who go on to college out-of-state do not return to Maine, because they have no decent paying jobs to come back to. Small manufacturing jobs may be the answer.

On health care issues, the costs are affecting small manufacturers' survival. One solution is to have small manufacturers pool together co-op health plan buying groups. Federal laws could make it mandatory for States like Maine to open up its market to all insurance companies, rather than limiting only to a few. Cost continues to rise annually and some of my colleagues here have mentioned that it's gone up. It's gone up as high as 25 to 40 percent. Most small manufacturers net between 2 to 5 percent if they are lucky, and these costs wipe out most it, if not all of it.

Federal liability reform is needed to protect small manufacturers against frivolous lawsuits by promoting legislation for liability reform. A cap of $250,000 should be set on punitive damages, that's non-economic damages, in civil cases against small manufacturers.

Creative financing and capital assistance programs are needed for the exceptional cases involving small manufacturers. I have here something that Arundel Machine Tool Co. sent me just this past week.

> "We need to get ISO certified by the first quarter of 2004 to allow our company to grow another $500,000 or more in sales. This would add another four to six employees; therefore, we'd take four to six people off the unemployment rolls. The cost to get ISO certified is high enough that we cannot afford to drop $15,000 right now simply due to cash flow reasons. What is offered by the State or local government to cover such things that, in turn, will end up helping the State in the long run? We'd have six more people paying income taxes, buying from more local businesses and so forth."

That's very typical and very good, I think, and really gets to the point.

On the national energy problem—we have to set up a national energy policy so that States like Maine can be more competitive with lower utility costs. As my colleagues said, that is a very important point for small manufacturers. Again, maybe we could set up co-op buying groups as incentives to induce small manufacturers to invest in energy-saving equipment and, also, buy additional equipment.

An international trade policy to permit American-made goods to compete with foreign-made goods imported to the United States from countries who are paying pennies a day to their work forces with no environmental policies in force. I think we have to do something about that. Far Eastern countries, especially China, which has been mentioned so many times, are driven by a low margin business approach to our U.S.A.-made products. We must do something about this.

On IRS tax revisions, we need to encourage investments and jobs creation. We have between 70–80,000 self-employed people in Maine. Manufacturing jobs could be increased through entrepreneurship. Restructuring the Federal tax system.

I have other things to say, but I think I have tried to get the points across within a limited time.

As small businesses, most of us fill a narrow niche in order to survive and grow. We determine the products to make, the customers to sell. We generally are low labor-intensive operations, low volume. We reduce costs rather than price reduce. Our strength is in people power and above all, hard work. We in Maine are the essence of the American way of life. We dare to dream and innovate in our own way.

I want to thank you again, Senator Snowe. I want you to know in the 1980s, I went to Washington to an oversight committee and presented testimony so that we could have a Senate small business committee. I am very pleased that it is in very capable hands.

Thank you.

[The prepared statement of Mr. Featherman follows:]

NEW RELEASE
For Release After 4PM
October 9th, 2003

From: Biddeford-Saco Chamber of
Commerce & Industry
110 Main St. S-1202
Saco, Me. 04072
For more info contact
Chairman Bernard Featherman
c/o Address Above

Testimony before Senate Small Business Committee 10/9/03
Council Chamber Room City of Lewiston City Hall, Lewiston, ME.

Honorable Chair Senator Snowe, Distinguished Government Speakers, Small Business Manufacturers and Guest:

We are honored to give testimony before your Senate Small Business Committee on issues affecting Maine's small manufacturers.

My name is Bernard Featherman. I am a past president of a family owned, small business manufacturer of steel equipment products. As an entrepreneur, I have been inducted as a lifetime member of the Institute of American Entrepreneurs. I reside in Maine with my wife Sandra. I am here today as the Chair of the Manufacturing and Industry Group of Biddeford-Saco Chamber of Commerce, representing our small manufacturers

Let me say Maine is noted for its pristine air, clean lakes, wonderful forestry, and fine resort areas. It has a low cost of living, amply priced housing, fine educational institutions and the quality of life opportunities to induce entrepreneurs and small manufacturers to locate here. In our specific area, we have an exceptionally low employment rate of 2 ½ %.

The question I am most asked is "How do you find business?" And I'm not quite sure how to respond. In one sense-good. Another- improving. Yet with cautious optimism, we are not out of the woods, so to speak. Small manufacturers were down almost 40% or more in sales volume in 2001. The last 12 to 24 months saw a collapse of the price structures, as a result of a customer driven market, which we still find today.

It has improved somewhat this quarter, 2003, but we are held captive to excess supplies, declined inventories, lengthened deliveries of raw materials, the strong US dollar for exporting (although it has loosened up lately) and the relatively high US labor costs. Productivity is increasing with less labor but the intense international competition is literally affecting every manufactured product, resulting in even more layoffs of employees.

Just recently, a non-profit Small Business advocacy group in Washington, D.C. found Maine to be ranked 48th lowest among the states with the worst small business policy climate. Most small businesses in Maine find this to be true.

Why is Maine thought to be so unfriendly to small business? Many existing businesses feel the need for a more business friendly climate by our local politicians. It is troubling to hear the impressions stated by a majority of businessmen and women (from small and big businesses) in other fields locally, who have expressed similar feelings.

Local municipalities and the state government in Maine impose high tax burden cost on small businesses and entrepreneurs. These high tax fees are on.

1.) Personal income and tax rates

2.) State and local sales taxes, gross receipts, and excise taxes.

3.) High electric utility costs.

4.) Increased health care costs. We have workers comp issues that cost our small manufacturers labor trouble and excessive money cost. Even unemployment taxes are out of whack. Perhaps this unfriendly business atmosphere is unwarranted but the facts suggest otherwise.

Unfair imports continue to erode our manufacturer base. It is estimated by year 2015, the total manufacturers in the USA will drop to 10% of all kinds of businesses.

SOME IMPORTANT CONCERNS AFFECTING SMALL MANUFACTURERS IN OUR AREA OF MAINE.

1.) Federal Grants to train the untrained in their workshop employment need to be increased. Present employees need to be upgraded.

The labor supply situation is scary. True, the key issue is jobs. Demand for labor over the next 10 years will outpace supply by 35 million jobs. New jobs require more education. Baby boomers are retiring soon. Employees in the future have to increase productivity, sometime even as a result over being overworked and stressed out. We need more employee assistance programs to alleviate job stress due to excessive workloads and losing one's job.

We need continuing education in technical schools and colleges in order to upgrade our students into higher skilled jobs through training grants. We can retool older workers or upgrade them into higher paying jobs. Or into their own entrepreneurial small businesses. New jobs can be created. We should encourage entrepreneurial education and the SBA ca~~n~~ helps us.

As a side note, Maine graduates one of the highest percentage of high school students ~~than~~ of any ~~other~~ state, but over 60% who go~~ing~~ on to college out of state do not return to Maine because there are no decent paying jobs to come back to. Small manufacturing jobs could be the solution to this issue of jobs.

2.) Health Care Issues. The costs are affecting small manufacturers' survival. One solution is to have small manufacturers pool together through co-op health plan buying groups. Federal laws could make it mandatory for states like Maine to open up ~~its~~ the market to all insurance companies, rather than limiting only to a few suppliers. Cost continues to rise annually, some from 25% to 40%. Most small manufacturers make net profits from 2% - 5% annually and these cost wipe out most, if not all of it.

3.) Federal Liability Reform is needed to protect small manufacturers against frivolous lawsuits by promoting legislation for liability reform. A cap of $250,000 should be set on punitive damages (non-economic damages) in proportion to their own fault in civil cases against small manufacturers.

4.) Creative Financing and capital assistance programs are needed for the exceptional cases involving small manufacturers. Arundel Machine Tool Co. makes its point that by getting ISO certified, their company can add another 6 more employees to their work roles. Because of cash flow reasons they can not come up with $15,000 it cost to become certified. If the state can not help, what can the Federal government do in this case? (See attached letter from Arundel Machine Tool Co.)

5.) A National Energy Policy is needed so states like Maine can be more competitive with lower utility costs. Small manufacturers should have the right to set up co-ops buying groups as incentives to induce us to invest in energy saving equipment.

6.) An International Trade Policy to permit American made goods to compete with foreign made goods imported to the USA from countries who are paying pennies a day to their work forces with no environmental policies in force. Far Eastern countries, especially China, are driven by a low margin business approach to our USA made products. International trade assistance through local sales seminars could help the small manufacturers market their products overseas more successfully.

7.) <u>IRS Tax Revisions</u> are needed to encourage investments and jobs creations. We have between 70 – 80,000 self-employed people in Maine. Manufacturing jobs could be increased through entrepreneurship. <u>Restructuring the federal tax system</u> will help promote private investments, export assistance and competitiveness by small manufacturers. They can consider buying new equipment with attractive federal tax credits incentives (~~by~~ like increasing ~~on~~ depreciation ~~allowances~~, etc) It all adds up to more jobs.

Globalization and technological change will affect the economy long run capacity for growth and near term capacity to employ people.

As small businesses most of us fill a narrow ~~nich~~ niche in order to survive and grow. We determine the products to make, the customers to sell, ~~As~~ as small manufacturers, we are generally labor intensive operations, low volume. We cost reduce rather then price reduce. Our strength is in people power and above all, hard work. We, in Maine, are the essence of the American way of life. We dare to dream and innovate in our own way.

Thank you for giving us this opportunity to express issues of concern to us. We want to make our community a better place when we go out than it was when we came in. All of us benefit.

ARUNDEL MACHINE TOOL CO. INC.

Precision Machined Products

September 25, 2003

Biddeford Saco Chamber of Commerce & Industry
110 Main St. Suite 1202
Saco, Maine 04072
Attn: Bernard Featherman

Bernard,

I received the "minutes" from yesterdays meeting and wanted to comment on a couple of things. Has this committee put together a "mission"? I noticed yesterday a lot of the discussion was around past success stories but how are we going to be focusing on issues at hand in today's market and economic status?

Listed below is what Arundel Machine has outlined. Let me know your thoughts.

Local and State Concerns for Our Business

- Cost of Health Benefits consistently increasing in Maine will drive companies to NH for fewer costs. Why isn't the State governing this issue now?
- Why is Manufacturing getting less and less in Maine? Cost of doing business, ie: Healthcare, Workman's Comp cost, Unemployment Taxes, Personal Property Taxes... the list goes on. When are people going to step up and focus on the real issues?
- Keeping employees or validating why people should stay in Manufacturing is not as much as a concern to us as keeping businesses (manufacturer's) in Maine. If we don't focus on making this State beneficial for companies to move here or grow here then you don't need to worry about training people on improvements in their work field. What incentives are currently in place that lure companies here?
- We need to get ISO certified by Q1 of 2004 to allow our company to grow another $500k (or more) in sales. This would add another 4 to 6 employees; therefore we'd take 4 to 6 people off unemployment. The cost to get ISO certified is high enough that we can not afford to drop $15k right now simply due to cash flow reasons. What is offered by the State or Local Government to cover such things that in turn will end up helping the State in the long run? We'd have 6 more people paying income taxes, buying from more local businesses, etc, etc.

17 Pomerleau Street Biddeford Maine 04005 Tel: 207-282-0949 Fax: 207-282-3828

Chair SNOWE. Thank you. Thank you for your vision.

The fact is, small business plays a pivotal role in our manufacturing industry. Try to convey that to Congress. That is one of the issues I recently discusses here in Maine. I was in Bangor on Tuesday to celebrate the 50th anniversary of the Small Business Administration. During a roundtable, the question came up, why is it so hard, if small business plays such a role in our economy—it creates three-quarters of all the net new jobs in America—why isn't that conveyed in Congress? So often, the Small Business Administration is targeted either for extinction or for serious cutbacks. It is amazing, because as I have looked at these programs, now as the new Chair of the Small Business Committee, I am really astounded at the relationship that exists between the investments made in these programs and the exponential benefits that result from those investments in job creation. It's very impressive. We can maximize the investments that we make in small businesses through programs like the 7(a), and the 504 Loan Program, which yields multiple benefits in job creation, because small businesses are the job creators. That's what is happening in America. It's true, obviously, here in Maine. We know that. But it's also true nationally. It amazes me that the contradictions exist, because a lot of people don't realize and appreciate how important these programs and the Small Business Administration is. It will grow even more crucial, and should be elevated and profiled, because everything revolves around small business one way or the other. That's why I appreciate the efforts that you all made to be here today.

Speaking of job creators, I would like to say that Bernard Featherman's wife, Sandra Featherman, is President of the University of New England and has done a dynamite job in her leadership on behalf of that university. It's so important to Maine. She's done an outstanding job there.

Mr. FEATHERMAN. Thank you very much, Senator.

Chair SNOWE. Give her my very best.

I want to thank all of you for your testimony. It really illustrated a broad array of problems and that ultimately seem to come back to many of the same issues. And, I would like to know several things.

First of all, which programs have you utilized in the past? Several of you mentioned the Maine Manufacturing Extension Partnership, which is chaired by Rod Rodrigue, who has done an excellent job, as I was saying earlier.

Bruce, you mentioned the MEP and I attributed it to Rodney, when you said that there is so much of a fight over the $100-million program, and yet it produces so much in the way of benefits. Do you benefit from the MEP? How many others have used the MEP? You did LoLisa, Thom. And so you obviously found it valuable. Did it help get you started, or with connections, did it provide you technical assistance?

Mr. LABRIE. I have all of the above to answer the question.

Chair SNOWE. All of the above. Okay.

Ms. BONNEY. Taking those grants——

Mr. LABRIE. As a matter of fact, I have an appointment to meet with some of those folks right after this meeting this morning to further our efforts and getting better at what we do.

Chair SNOWE. Oh great. That is extremely important. The MEP's value is something I have always believed in, but it's important to hear, firsthand, about the kind of benefits it provides for you to get started, or continue, or to expand and enhance.

Do any of you use small business programs through the Small Business Administration?

Mr. FEATHERMAN. We've used them.

Chair SNOWE. You've used them, Bernard.

Mr. FEATHERMAN. We've used, also, International Trade, and we've gone to universities and gotten business plans, set up on how to export. And we set up a trading house in the early 1990s. Which was very successful because of their help.

Mr. RODRIGUE. We take a lot of credit for all the work we do. As you know, in this kind of program you have to take all the credit you can. But a lot of the programs that we've completed, we worked closely with SBA, SBDC. They've given us leads. We've worked with them and brought them in, so that program is being used very heavily in Maine with small manufacturers.

Chair SNOWE. Well, what interests me here, is that although there are a vast number of SBA programs, even on the trade front, it is interesting that with the exception of Bernard, no one here has used those programs, I don't know, maybe they wouldn't have worked for you.

I have discovered this, not only in this State, but around the country. We have to do a better job in conveying what these programs are all about and how useful they could ultimately be for many small business owners. So we're going to do a better job on that. The SBA Administrator was recently supposed to be in Maine, but couldn't attend. The deputy, who is attending in his stead, and I spoke about how we can elevate the SBA's profile. Not only the profile of the agency, but also of the programs that come within its jurisdiction that are really invaluable. To that point I see two persons in the background that are important to Maine small businesses. Jeff Butland, the Regional Director for the Small Business Administration, who is based in Boston, and previously served Maine as its former President of the Senate. And Mary MacAleney, SBA's District Director, located in Augusta.

So, again, there are a lot of programs out there, ust put that in the back of your mind, because there may be something that we can do in that regard that could be a value to you and what you are trying to do within your own businesses.

Bruce and, then, Thom.

Mr. PULKKINEN. I would like to comment on that. I think that, and I am very much in touch with what's going on with MEP programs and NAM and Small Business, and I think it's the average manufacturer, unfortunately, does not know what some of those programs are that are out there. Including myself. The SBA programs, the ones that I am most familiar with, are help in guarantees for finance and things like that. And since our company has not had a need for that since the early 1990s, I have not been involved in that. But, I think, one of the important differences—that the MEP program, for example, is out in the street and is out going to the businesses. They are going in through the door of the business. And as a businessperson, you are sort of busy just trying to get everything done every day, and you don't have the time to lift your head up and see what's around.

And that's the difference. It's a partnership between all of those organizations and somebody that's a lead person going in there, whether it's an MEP organization in some State or it might be the SBA organization in the State. But you need to get out and see the businesses.

Chair SNOWE. You know, that's exactly——

Mr. PULKKINEN. It's the only way it works.

Chair SNOWE. That's an excellent observation—and that's something we realized, too. Obviously you've done that, Rod, and that's something that we certainly need to work on. I'll convey that to the Administrator because it's getting the word out. You're right. You don't have time to go searching for programs and you have to meet the commitments that already are a result of State and Federal regulation. You just don't have time. That's exactly correct. And we've got to change that. There are Small Business Development Centers and Women's Business Centers. There's technical assistance that they can provide you. For instance, loan guarantees for purchases of real estate, machinery, and a broad array of programs that might fit something that you are trying to do at that moment in time.

Also, for technical assistance with trade, there are U.S. Exports Assistance Centers all over the country, like the regional one in Boston, that provide all kinds of technical assistance. Promoting our resources is something we need to do a better job with. I am going to convey that to the Administration, because this is what I have learned in traveling in Maine, and getting input from national small business owners, too. Many people are not aware of what's out there. Yes.

Mr. PULKKINEN. Senator Snowe, I don't want to give you more business to work on, but you and your capable staff could look into the idea of setting up a resource booklet from the Senate Small Business Committee that could be distributed out. And those of us in industry, and many of the people that I represent, do not know where to go. And that would be wonderful if we could get a resource book on that, of all the departments that would help us.

Chair SNOWE. Right. I have a pamphlet, but I don't know if it's all-inclusive enough. It's on the table. But I agree with you.

We have to bring the SBA to you. That's the bottom line. And that's the message I have heard almost universally. That's why I was interested in knowing.

Yes, Thom.

Could it have helped you in anyway?

Mr. LABRIE. Not really. What I did want to say was, is that Annie, Pete and Rod have been very supportive of some of the creative things that we've done in the past, but also, MTI has been an excellent program.

Chair SNOWE. The Institute. Okay.

Mr. LABRIE. Maine Technology Institute, with the State of Maine, been very, very helpful and really looking for new and innovative ideas of support, so worth putting them at the front end, also.

Mr. RODRIGUE. Senator.

Chair SNOWE. Yes, Rod.

Mr. RODRIGUE. The short-term issue for us, however, is daily. Even though we have these great programs, we are facing a very, very crucial, critical, acute problem over the next 18-24 months.

Chair SNOWE. Absolutely.

Mr. RODRIGUE. One of the things that we have, I don't want to say——

Chair SNOWE. No. That's going to be my next question. Go ahead.

Mr. RODRIGUE. I don't want say it's a fundamental flaw in our approach, but to some degree it is. Everything that we've talked about is cutting the expenses for the manufacturers. Let's cut the taxes. Let's try to cut this. Business is built up two ways: revenue and expenses. We are really trying to make them leaner and faster and better and all the things that we do, and that's in many, many programs. We have to drive the revenue for the manufacturers. They are so busy getting their widgets out the door they can't go after new marketplaces. There are marketplaces out there.

Chair SNOWE. I agree.

Mr. RODRIGUE. If there isn't one mill in this State or in this country, if we could have doubled the sales of a very small manufacturer, and I don't mean big numbers, $500,000 a year-$1,000,000 a year, we would have a thousand manufacturers, and now they are gone. They are now extinct. This is an irreversible exit that is happening daily and we need to drive the upper side, the revenue side. We are the largest buyers of everything in the world, $355 billion in defense alone, and we have a hard time. If you can make a titanium ball valve today with all of the right qualities and so forth, it'll take you 2 years to sell it to the Navy—and they'll buy it at twice the price from Sweden. That is some of the things that we really have to address and get these folks into the supply chains. And what we need to do that is raw political power.

Chair SNOWE. You mentioned the fact that the universities and Federal laboratories are mandated to work with and include small- and medium-sized enterprises, and that's not happening.

Mr. RODRIGUE. That's not happening.

Chair SNOWE. Now whose responsibility would that be?

Mr. RODRIGUE. Well, I think the bureaucracy that's set up, they will work with you, but it takes you a year-and-a-half to get——

Chair SNOWE. Okay. So which laboratories, you mean whichever department they are in?

Mr. RODRIGUE. For example, there are 714 labs in this country. I think the grand-daddy of them all is the National Institute of Standards and Technology. But at each one of the them, you have to go in, you have to apply, you have to do—even if you have the money to pay for it, and in a lot of cases you don't.

We did a pilot program and Maine was awarded the pilot. And it worked so well because we didn't have to go through all the bureaucracy, we just went in and found, and we did it—Kenway Corporation is in existence today, I think, because of what we did. Cyr Scientific has taken advantage of it. Embed Tech is still here today and, really, with brand new marketplace, we got them the technology. I don't like to use the word technology transfer, because it's an AE pipeline. We need technology extension, which is a 6-month pipeline. And I believe that the pilot program, and I have supplied your staff with it, should be done and put [inaudible] I think Dr. [inaudible] at National Institute of Standards and Technology could go ahead. I don't like to throw money at, just say, throw money at it. But I think if we refocus what we already have, Senator, I think we could be very successful.

Chair SNOWE. Well, I would agree, and we have to figure out what we need to do in order to accomplish that. I think that's exactly right. We must change the mindset of the Federal bureaucracy. We have found that with contracting and procurement, the barriers exist. Particularly harmed are small businesses. The Government's doors get slammed and we have to re-open them. The Administrator of the SBA and I are committed to doing that. But right now, focusing on these manufacturing issues is what's going to work best.

And obviously, China is an issue. Most of you discussed China, right? Could I say all of you? Randy, you dealt with a China problem? Yes. All of you? Yes. All of you?

Mr. LABRIE. I have sold to China, but I have sold to Canada, and I have [inaudible] overnight they raised the tariff on the product I was making 50 percent. So I had to come in 3 percent higher than their manufacturer for prices of the same goods. So what I did was—I went to my customers and wrote the duty drawback, so they could get their money back when they shipped the goods back to the United States. And I got them connected with American customers. So, that's one way we can do it. But I don't know how we can do it in China.

Chair SNOWE. So all of you faced problems with China?

Mr. LABRIE. Yes.

Chair SNOWE. And then obviously, Canada and some other countries. LoLisa, you were talking about——

Ms. BONNEY. Italy.

Chair SNOWE. Right. So how much in Eastern Europe? Was that your primary competitor? Or competitors?

Mr. LABRIE. No. But let me just make a point. Over the last few years we literally stopped exporting, because the export of our technology sped up the process of them copying our technology. If we sent it to Asia, it went to China. If we sent it to Europe, it went to Eastern Europe. So this has been part of the problem.

Chair SNOWE. Yes. Absolutely. And that's a huge part of the problem. And what you were talking about, LoLisa, was your gaskets. So one of your former customers in Canada is buying them from Malaysia, did you say?

Ms. BONNEY. China.

Chair SNOWE. China. And so what is the difference in price would you say?

Ms. BONNEY. Probably 30 percent.

Chair SNOWE. 30 percent.

Ms. BONNEY. But you are talking about inferior materials that they are bringing into the country. Words like asbestos, that shouldn't even be imported. They don't seem to control those imports. That's the trouble we had with Italy. They brought in a lot of stuff like that. And who's controlling that?

Chair SNOWE. Okay.

Randy, I wanted to mention to you, and I was going to ask Grant while he's here. Grant, if there's a shortage of log supply, can't they invoke export controls on that?

Mr. COUSINEAU. Yes.

Chair SNOWE. And I was going to ask Grant, too, since both of you are here.

Is that something you thought about, Randy? I mean at all? Has anybody ever mentioned that to you?

Mr. COUSINEAU. To do export——

Chair SNOWE. No. To impose export controls. If logs are in a short supply—are they in a short supply?

Mr. COUSINEAU. Yes.

Chair SNOWE. Yes.

Mr. COUSINEAU. And if they weren't going to Canada, there would be plenty of logs being cut in the State of Maine.

Chair SNOWE. Yes.

Mr. COUSINEAU. But they are.

Chair SNOWE. So then, Grant, I was asking the Secretary—is it possible to invoke export controls in this instance?

Mr. ALDONAS. Getting back to your experience on the House side when you worked on a lot of export provisions, there is a provision in the Export Administration Act that allows for the control of logs that are in short supply, and you need to come in and make a case. Essentially that is within the Export Administration side of the Commerce Department.

Chair SNOWE. Has anybody made that case, Randy, that you know of?

Mr. COUSINEAU. I don't believe it has. No.

Chair SNOWE. Well, let's explore that issue with you further. Okay. I'll have my staff be in touch and explore that issue with you further, but, obviously, it's indicative of the nature of the problems that you are dealing with in any event. Now, I would like to know, to wrap this up, if Congress and the President had five things or three things, the top three things that we could get done now, something that is critically important, what would it be? What do you think we ought to focus on?

Thom.

Mr. LABRIE. I don't know if it necessarily fits the President or the Congress. But if you were to ask me what I think would be the best return of investment for helping Maine's industries or manufacturers, especially the natural resource-based industries—these industries are very strong in the manufacturing area, they are extremely weak in the merchandising area. If there is one place that money should be spent, it's to promote Maine-made products, just like they do with tourism. There is a tremendous return on investment on those dollars. It's an area where if the industry can bring orders and demand to the table for Maine-made products, we can create jobs.

But when it comes to the industry developing new products and having to bring them to market, they have no clue in general how to do it and that's where it stops. So any kind of promotion generating demand for Maine-made products will get tremendous return on investment on those dollars.

Chair SNOWE. Okay. Thanks.

Bruce.

Mr. PULKKINEN. I think I'd go along with that whole-heartedly. I think our company is very good at what we do. We are probably one of the best at what we do, and I am proud of what we do as a company. But for us, the resources to go out and develop new markets, even within the United States, or outside the United States, it's impossible for us to do. We don't have the funds available. We don't have the personnel available, at times, and so we're looking to groups, like Rod's group, to put us in touch with all the different folks that are out there. A little piece here, a little piece there, help with the marketing side here, help with getting into the government contracting side, or the supply chain side over here. A little piece of help inside our plant on how do we get a little better at what we're doing, whether it is packaging or what-have-you.

It's being able to go to all those sources and get better at what we do so that we can find that market, identify that market and get out to that market. I have no doubt—I have a bank that's 100 percent behind me. Financing has not been my issue. It has been for many companies. It's really getting help to that marketplace. I know it helped the company tremendously over the next few years.

Chair SNOWE. And what would you want, since Secretary Aldonas is writing up the report as we speak, you know he's finishing it very quickly. And he's going to be making recommendations to the Secretary and the Secretary will be making recommendations to the President on what actions to be taken.

Mr. PULKKINEN. Mine goes back a little bit to helping companies from a tax standpoint. If I can reinvest more of my dollars into the company, I would just as soon not take a dollar out of the company. If I could invest all those dollars into expansion and growth without losing so much on the side, if I got credit for reinvesting in my company.

I think if all companies got credit for reinvesting, that would be the single most important thing that the Treasury side, or the President and Congress could do for me.

Chair SNOWE. Rod.

Mr. RODRIGUE. Oh, yes. We have three ways of creating wealth in this Nation. It's mining, manufacturing and agriculture. The mining and agriculture—when you get done cutting the head off the fish or cutting the piece of wood, you need to go to manufacturing. We spend $900 million a year on agriculture. We've been the breadbasket, and it's been very successful. We have a hard time with a great program like the MEP program and other programs. We have a trillion dollars worth of technology sitting on the shelf and we can't access it. Both of these come under the Department of Commerce. I know that their hearts are in the right place. I just want to make sure their minds will follow. So I am hoping that, as they hear this and see it, they'll see that it is imperative, because the Administration's policy is, basically, let's make ourselves safe.

Great manufacturing will make this country safe and will stir and bring back the economy. So, I would hope that they would put together a strike team and build it from the ground up, not from the top down—and I think we could succeed.

Chair SNOWE. Yes. I would agree. And time is of the essence, obviously.

LoLisa.

Ms. BONNEY. I would like to add to Rod that was a small business owner. We've got 13 people on hand. I get a little tired of hearing about how they are trying to cut these programs—SBA, SBDC, Rod's program, the MEP. I mean, don't you people realize that—I mean, why does it have to be, you know, continually——

Chair SNOWE. I know. I understand. I feel like that.

Ms. BONNEY. It's the same thing. His program is a great program. It's just kind of like, you know, beating a dead horse. Come on.

Chair SNOWE. Oh, no. Now you've got a feeling what Congress is like. Believe me, I know that what makes sense doesn't always make sense to them. These programs work, and they need to hear the real story. The problem among a lot of my colleagues is that they need to hear what we're talking about concerning jobs, and what works in these programs. And these programs do work! You are a prime indication. You are the personal testimony to that. I'll bring your message to Washington.

I know that you are so busy doing your jobs. The fact that you even have to be here today is really regrettable. It is unfortunate that we are in a situation that you have to take time out of your businesses to be here. I just want you to know that Secretary Aldonas, Secretary Olson, and I all realize that you have taken valuable time away from your own businesses to be here today to share your thoughts. You have to continue to work to make things better for you, because it's going to make things better for America. That's the issue. That's the correlation here. That's what we've got to do to make it better.

Can I ask another question? One other question? If for example, our Government addressed the China issues and its currency, to what degree do you think that would have an impact on your businesses' ability to compete? Would that help offset the other issues?

The cost of health care, for instance, which I am working on with the associated health plans. I won't get into that now, but I'll tell you, I am trying to drive that train out of the station. Health care cost is a very important issue to small business owners. I am working on the health care issue as we speak. In fact, association health plan legislation has passed the House, and I am trying to get similar legislation through the Senate now. It's a very important legislation aimed at putting small businesses on the same playing field as large corporations and unions. The President has been championing this package, and it's a great idea. It offers the efficiencies and buying power that large companies and unions enjoy now. If you had access to national plans with affordable health insurance for your employees, I am sure it would make a difference.

Let's just end the China question.

Mr. LABRIE. I think the health care issue is so important that that should be number one in my mind, because that affects all businesses, whether we're manufacturers or otherwise. And it is a very important issue.

Chair SNOWE. Yes, it is. Actually, it is the number one issue for small business owners, from what I have heard. It has risen to their primary concern, because it's impeding their abilities to offer that benefit to their employees.

John.

Mr. WENTWORTH. My take on the Chinese furniture issue is that, in the long term, it will not change the situation. What we are hoping for is enough time to give us the opportunity and resources to buy some new markets and new niches. And if I may use one quick example, we have a dealer here in Lewiston—we make the cocktail tables at approximately 45 inches long and 30 inches wide out of solid maple. It's very nice. And we wholesale for $149. In speaking to him about declining sales, he showed me one he's imported from China made out of Chinese oak that he buys for $39.

Chair SNOWE. Unbelievable.

Mr. WENTWORTH. Now at 15 to 20 percent tariff that doesn't—those discrepancies aren't going to be made up. So we have to have time to be able to find new markets for wood products, maybe make custom furniture, maybe make quick turnaround, do something different in our marketing approach.

Chair SNOWE. Do you work with Rod?

Mr. WENTWORTH. We have in the past. We're using a private consultant at this time right now. We have used them in the past.

Chair SNOWE. Secretary Aldonas, Moosehead Furniture has an outstanding reputation. It is a good example of a company doing the best it can while dealing with all these external forces.

Mr. RODRIGUE. If I could add, it just comes back to the point that I was trying to make and that is when you do level the playing field, and even if we imposed upon them the cost of health insurance, the cost of a lot of the other impediments that we appear to have—to the extent that we can impose a labor cost on them—what are we going to do in a labor-intensive business, number one. Number two, even in India, right now, accountants—IBM is moving over their programs and a lot of those types of professional jobs. It's not necessarily manufacturing which is being exposed to labor as a commodity and as a way of taking care of things, call centers and so forth. Could I?

Chair SNOWE. Yes. Rod—and then Thom.

Mr. RODRIGUE. I admire everything you are trying to do with China. I don't put too many bets on the fact that they are going to make the Chinese do what they want and that I think, if they end up doing it, they'll find ways around it. And I don't know. There's a long way for it to trickle down and the gaps are so wide. I think we can do things right here. I think we are going to have trade with China, no matter what any of us do. And I don't think it's going to level the playing field enough to help these manufacturers. My biggest fear is for us to focus on China and some of these issues, which I think we should be working on, but they are longer-term solutions.

The short-term solutions are what we need to do. And I think the Administration has to face that. Otherwise, when you do fix the problem, and if you could magically fix it in 3 years, you are going to lose half of your small manufacturing base while finding other market niches and get them into supply chains where they won't be subject to these predatory type of attacks on their particular businesses. Build a solid structure. If we could do that for 18 to 24 months, it gives them the respite they need then to move in and find their place in the market. So it's a salvage operation at this particular point.

Chair SNOWE. I just saw a statistic which may have been in one of your testimonies, that stated the employers with 500 or fewer employees are two-and-a-half-times more innovative than larger companies. So, you're really the niche laboratory for building things, for an agency or creating something for the Defense Department, for example. So when you talk about buying American, absolutely! That's what under-girds the Defense industrial base and supports innovation in this country. That's one of the issues right now in the Defense Authorization Conference Report.

Yes, Thom.

Mr. LABRIE. On the currency issue, obviously, any help is help, but the question is what does the currency exchange end up being—with the bigger the gain, the better, obviously?

On the previous question about if you could bring something to the President and Congress, whatever, as a small businessperson.

The main, number one, is trying to protect American innovation from Chinese copy artists. I don't know how you do it. The tax system is never going to do it. And then, number two, beat it down to a level playing field as much as is reasonably possible. And if you do those two things, it's going to go a long way to helping the situation.

Chair SNOWE. Yes, intellectual property rights and piracy are two huge issues there, without question. They just run abandon on those issues. That has really been detrimental.

Bruce, you have the final word.

Mr. PULKKINEN. Final word. You said "Buy American." If we can take Rod's ideas and get enough of us that manufacture in this country up to speed, and have the ability to supply not only our own markets, but the Federal market—if we can produce the products here in the U.S. that the U.S. Government needs to buy, we ought to be doing it here. Buy American.

Chair SNOWE. I appreciate it. Exactly. Absolutely. And what a better way to start than with the Federal Government—and now, in a $350 billion defense authorization report. That's, to me, absolutely pivotal.

I want to thank all of you for participating in this hearing. Thank you, Secretary Aldonas and Secretary Olson for your efforts and your presence here today. I know that you, Grant, will be doing all you can.

I encourage you to persist in your efforts on behalf of these individuals, and all those you have talked to across America, when it comes to the challenges facing small businesses and small business manufacturers. As Chair of the Senate Small Business Committee, I am certainly concerned about their need. This has been very helpful to me.

I am grateful to have had the opportunity to listen to you today. Thank you for sharing your experiences, however difficult, with me and with the Administration officials. I assure you that the President, the Secretary of Commerce, Secretary Evans, Secretary Snow of the Treasury, and I, are all committed to doing everything we can to reverse this serious decline in the number of manufacturing jobs and the number of manufacturers. So, again, thank you very much.

This hearing is adjourned.

[Whereupon, the hearing adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement of Congressman Michael H. Michaud
Manufacturing in Crisis
October 9, 2003

The manufacturing sector is in crisis and Maine is unfortunately no stranger to this problem. It seems a week does not pass without news of another layoff or a business closing. This is an issue that needs our country's full attention, and I am pleased that our delegation has worked so well to ensure that Maine voices are heard in Congress. Unfortunately, in less than three years, this country has lost 3.3 million jobs, and 2.5 million-or 80%-of those jobs have been in manufacturing. This is especially devastating because many of these losses are high-paying jobs with health care and pensions that will not be replaced. Over the past eight years in Maine, we have lost over 24,000 manufacturing jobs alone- from Georgia-Pacific to Dexter Shoes to Fraser Paper to Great Northern Paper to Hathaway Shirts to Forster Manufacturing. At a time when we are trying to get this economy moving again, a new mission reflecting the needs of small businesses and manufacturing is what this country needs.

After 30 years working in a paper mill, I know the struggles that these businesses and workers are going through. Much of the recent talk of higher GDP growth won't mean a lot if we can't keep the jobs we have and create new ones.

I joined the House Manufacturing Caucus in order to delve into specific issues surrounding manufacturing and to work on addressing this spiraling problem. For months, my colleagues and I have been lobbying the Administration to create an Assistant Secretary of Commerce for Manufacturing and I am pleased that the effort finally paid off and that the President is moving forward with our suggestions.

The new manufacturing position within the Department of Commerce should be the focal point for manufacturing issues within the Executive branch. I also believe it is crucial that this position have the teeth and the muscle to make a real difference. This new Assistant Secretary of Manufacturing should act as an advocate and ambassador for the entire sector and work closely with congress to remedy the decline of our manufacturing sector.

In addition to my work on the House Manufacturing Caucus, I am a member of the House Small Business Committee. This affords me the chance to hear the concerns of manufacturers and businesses of all sizes. As many in Maine know, the closing of a large or medium sized business, as well as significant layoffs, can create a sometimes devastating economic ripple effect for small businesses in the area. I am working on legislation to aid not just a business, but also the whole community that is affected when a business is in trouble.

It is time for the government to accept responsibility for many of the policies that currently hurt manufacturers, such as unfair trade agreements and spiraling health care costs. I will continue to work with my colleagues in Congress to address these pressing concerns, and help keep Maine working in manufacturing.

Senator Olympia Snowe
Senate Committee on Small Business & Entrepreneurship
"Small Business Manufacturing in a Global Market"
October 9, 2003
Opening Statement

Good morning. I want to welcome you all to today's field hearing, "Small Business Manufacturing in a Global Economy."

First let me say it's always such a pleasure for me to be in Lewiston-Auburn where my hometown roots run so deep. Indeed, I couldn't help but think how appropriate it is that my very first field hearing as Chair of the Small Business Committee would be in a place where it all started for me.

I *also* felt it was entirely fitting that a hearing focused on the importance and resurgence of manufacturing be held in a place that was literally *built* by manufacturing and the hardworking people who made Lewiston-Auburn's legendary industrial base possible. Of course, it is also an area that is all-too familiar with the tremendous losses we've seen over the years in the manufacturing sector. So it is *altogether* appropriate we are here and I thank the City of Lewiston for hosting this hearing today.

Let me begin by thanking our witnesses who have so generously taken the time to be here today and to offer their testimony on this most pressing issue. We are extremely fortunate to have key members of the President's Administration with us –the Honorable Grant Aldonas, United States Commerce Undersecretary for International Trade–and the Honorable Pamela Olson, The United States Department of Treasury's Assistant Secretary for Tax Policy. Your presence here attests to the President's understanding of manufacturing's importance to our economy and his commitment to aiding its recovery.

As many of you know, the Small Business Administration's Administrator, Hector Barreto, was planning on joining us today, but unfortunately he is unable to attend due to a family emergency. I hope you will join me in extending our best wishes to Hector and his family. Although Administrator Barreto is unable to be here, he will submit testimony that will become part of the official record. Copies of that testimony will be available through the Committee.

Finally, among our panelists are Maine small business representatives who are exceptional advocates for the manufacturing sector of our economy and who have taken valuable time away from their businesses to make *invaluable* contributions to this hearing. Thank you, to all of you, and I look forward to hearing your testimony shortly.

Let me open by saying that it would be *impossible* to overstate the role of small business manufacturers within the overall manufacturing industry and our nation's economy. With small business manufacturers constituting over 98 percent of our nation's manufacturing enterprises, employing 12 million people, and supplying more than 50 percent of the value-added U.S. manufacturing, it is a sector we cannot afford to ignore. Yet, we know that *no* industry has witnessed a more *profound erosion* of jobs than U.S. manufacturers – and *that* is why I have chosen to focus this first field hearing on strengthening this vital sector that has *also* been traditionally a source of quality jobs, decent wages and critical benefits.

The damage manufacturing has sustained is nothing short of stunning. From July 2000 through July 2003, almost 2.7 million U.S. manufacturing jobs have been eliminated. Incredibly, New England lost more than 214,000 manufacturing jobs between June 1993 through June 2003, with fully 78 percent of those losses occurring since January of 2001.

Here in Maine, we've been *shedding* manufacturing jobs at an alarming rate over the past decade – and all the more so in the past two years. From January 1993 through June 2003, a ten-and-a-half year period, Maine lost 18,900 manufacturing jobs and *astoundingly* 17,300 of those losses occurred between July 2000 and June 2003. So we are *far* from headed in the right direction.

So, there should be no doubt of the need to bolster our manufacturing industry – *especially* with unemployment levels recently reaching a high of 6.4 percent in the United States. The bottom line is, if we are to ensure the road to recovery is robust, we have a *special* obligation to provide the tools for growth in manufacturing.

And it's not only critical for the preservation of the sector, but also to preserve *other* sectors of our economy. In fact, it has been reported that for every dollar in manufacturing product, an additional $1.26 is created in other industry sectors such as suppliers of raw materials, marketing and retail industries. That's more than a 100 percent return on the initial investment – we should be so lucky to find a mutual fund like that!

Looking even *more* broadly, a healthy manufacturing sector is essential to the preservation of our nation's security and its status as a world power. We *must* end this trend of becoming increasingly dependent upon other countries for the products we use and rely upon. *Now* is the crucial time for everyone... industry representatives...Congress...the President...Republicans and Democrats alike, to work together toward the common goal of revitalizing our manufacturing industry.

Cheap imports from China constantly threaten the realization of our goal. In fact, China's trade surplus with the United States rose 25 percent during the first half of 2003. Although China is advantaged by low-labor costs, U.S.

manufacturers have consistently reassured us that they *can* compete with China – if only there were a level playing-field.

That is why I urged the President in July, and also Treasury Secretary Snow in August, before his trip to Asia, to confront China concerning its unfair trade practices including its artificial manipulation of the yuan. I am pleased the administration has increased its pressure on China and I am also optimistic that my September 25 testimony to the U.S.-China Economic and Security Review Commission will encourage that commission to aggressively address the China currency issue.

Another matter that will have an enormous impact on domestic manufacturers is the replacement of the "Extraterritorial Income (ETI) Exclusion Act" and the "Foreign Sales Corporation" (FSC) provisions that are in current tax laws to specifically provide U.S. companies that export a tax incentive to export their goods.

The intent of those laws was to make U.S. exports more competitive overseas by reducing the maximum tax rate on export income from 35 percent to about 29.75 percent. However, these same tax incentives were targeted by the World Trade Organization (WTO) as providing an export subsidy in violation of WTO rules. Consequently, they must be repealed, or else the U.S. could face up to $4 billion in sanctions. At the same time, such a repeal would add about $50 billion to the manufacturers' tax burden over the next ten years.

Last week, we marked up new legislation in the Finance Committee, the Jump Start Our Business Strength (JOBS) Act, to help the nation's manufacturers and exporters. And I was extremely pleased that Chairman Grassley agreed to expand a key portion of the bill, which results in a *lower tax rate* for manufacturers, to cover all forms of small manufacturers including: C corporations, S corporation, LLCs, partnerships, and sole proprietorships. I am

also grateful that the committee accepted my amendment to change the tax rules so that Small Business Investment Companies can receive more investments from tax-exempt organizations, like pension funds, which will mean more capital available for SBICs to invest in the nation's small businesses.

I also worked with the Finance Committee to ensure that the tax break for manufacturers included softwood lumber producers. The Softwood Lumber industry, like paper and steel, has faced unfair trade from countries that subsidize their products and dump them on the U.S. market – in violation of our trade laws. This Administration has taken a firm stance on enforcing trade laws, and in particular I would like to thank Under Secretary Aldonas for his untiring work on behalf of the U.S. softwood lumber industry in negotiations for a fair market with Canada. In the Finance Committee, we will work with this Administration on increasing our efforts to ensure that trading partners comply with international trade agreements.

Of course, it is the Small Business Committee that has oversight jurisdiction over the Small Business Administration, and I'm pleased to say we have just passed the Senate legislation to reauthorize the SBA for the coming three years. Reflecting my concern for small business manufacturers, this bill contains numerous provisions that will benefit manufacturers including an increase in the 7(a) loan size from $2 million to $2.6 million for small businesses involved in exporting products...changes allowing small businesses to now participate in the 7(a) and 504 loan programs simultaneously...and an increase of maximum loan guarantees for manufacturing loans from $2 million to $4 million.

Provisions like these in the SBA reauthorization bill should *directly* benefit small-business manufacturers. That's why I'm working with my colleagues in the House to reconcile the differences between the Senate and House versions of this legislation so we can provide the strongest package of assistance to help the manufacturing sector do what they do best – produce jobs!

That means it's *also* essential the SBA is properly equipped to become more actively involved in small business importing and exporting programs and trade issues that affect small business manufacturers. That is why legislation, that I intend to offer, will increase the SBA's participation in trade negotiations and expand its import and export assistance activities. It will also improve access to capitol for businesses that export, as well as for businesses that are adversely affected by unfair imports. Finally, the legislation will call for increased SBA role with U.S. Export Assistance Centers, and their participation in developing trade policy and negotiating trade agreements.

So *my* vision, and what I hope to accomplish here *today,* is to focus greater attention on small business manufacturers' concerns and current efforts to aid their recovery. An equally important goal, throughout this hearing, is to hear your constructive suggestions for the revitalization of Maine's and the nation's manufacturing base as we move forward. As Chair of this Committee, I can ensure you that small business manufacturers' concerns are the Committee's concerns and that we will continue our efforts toward strengthening your industry. With that we welcome our first panel.

COMMENTS FOR THE RECORD

TESTIMONY OF
HECTOR V. BARRETO, ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

FIELD HEARING ON SMALL BUSINESS MANUFACTURING IN A GLOBAL MARKET

OCTOBER 9, 2003

Good morning Chairwoman Snowe, Ranking Member Kerry, members of the committee and other distinguished guests. Thank you for inviting me to testify on small business manufacturing in the global market and the role that the U.S. Small Business Administration (SBA) plays supporting small manufacturers as well as the Agency's international trade related activities.

President Bush understands the vital role that America's small businesses play in creating opportunities. He also recognizes that as we look toward economic recovery, small businesses play a leading role, and that, in such times, it is small businesses that account the majority of new U.S. jobs.

Small businesses create the majority of new U.S. jobs, are responsible for much of our economy's innovation, and generate over half of our private gross domestic product. Therefore, the President worked to create an environment in which entrepreneurship can flourish and thus bolster small business.

This agenda includes providing small businesses with the information they need to succeed, ensuring full access to government contracting opportunities, and tearing down regulatory barriers to job creation for small business by giving them a voice in the complex and confusing federal regulatory process.

Let me focus a little more on how SBA's programs support the President's Agenda and to tie it to today's hearing, how the Agency assists small manufacturers. SBA's 7(a), 504, and SBIC financing programs all provide small manufacturers the capital the need to develop and grow their businesses. SBA's SCORE and SBDC programs also provide management and technical assistance tailored to the small manufacturing community. Finally, SBA assistance is available to those businesses adversely affected by imports.

SBA's 504 program is perhaps the most useful for small manufacturers. Manufacturers can use the 504 program to purchase real estate, finance a factory building or purchase heavy equipment. In the 504 program, SBA provides a 100% guaranty of a Certified Development Company debenture which is sold to help fund a project. The debenture proceeds typically fund 40% of a project. Usually, the borrower is only required to put 10% down and the remaining 50% comes from a conventional loan made by a private sector lender. Section 504 loans can be for 10 or 20 years and have fixed interest rates.

SBA has made several recent changes to the 504 program that we believe will have a positive impact on small manufacturers. SBA just completed a final rule within the program that will allow for the certification of more development companies into the program and will allow development companies already participating in the program to serve larger portions of the United States. We believe that this will result in greater competition between 504 loan providers which will improve access, service and exposure for the 504 program and have a positive impact on the number of manufacturing loans made, and increase the number of intermediaries that are available to make the 504 loans. SBA also opened up participation within the 504 program to Credit Unions, expanding the number of potential lenders for these loans.

Through SBA's 7(a) program, a private sector lender makes loans to small manufacturers for a variety of business purposes. SBA places a guaranty, typically 75%, on that loan, providing incentive to the lender to make loans to borrowers who otherwise might not receive the financing they need to start their business or keep it running in hard times. These loans can be used for real estate, working capital, raw material purchases, leasehold improvements and for other general business purposes. Section 7(a) loans may be for terms up to 25 years and may have fixed or variable interest rates. The maximum loan size is $2,000,000, and SBA's guaranty is capped at $1,000,000, except international trade loans where SBA's guaranty is capped at $1,300,000.

Madame Chairwoman, I am proud to inform you that in fiscal year 2002, SBA provided financing of over $2.7 billion to small businesses in the manufacturing sector. In the past three years, SBA has approved over 15,000 7(a) loans to the manufacturing sector for almost $4.2 billion dollars. These are loans made by private sector lending institutions where SBA has put a government guaranty, typically 75%, on a portion of the loan. In that same period, SBA has approved almost 2,300 504 loans for $1.16 billion dollars to manufacturers. It is important to note that in the 504 program, the SBA portion is only 40% of the total project. This means that the total financing for these loans was close to $3 billion dollars.

Finally, SBA's SBIC program, with total program level of $7 billion including participating securities and debentures, is successfully assisting small manufacturers in need. During Fiscal Year 2003, SBIC Program Licensees made 951 financings for $698.3 million to 406 different businesses involved with manufacturing. 28% of all financings in FY 2002 went to manufacturing companies and between 1994 and 2000, the SBIC program made 26% of its investments in industrial and manufacturing industries, totaling more than $6.3 billion.

SBA's entrepreneurial development programs offer small manufacturers assistance in growing and managing their business. Many of SBA's Small Business Development Centers (SBDCs) partner with the Department of Commerce, National Institute of Standards and Technology's Manufacturing Extension Partnerships (MEPs) to provide specialized services to small manufacturers. Through this partnership, small manufacturers can receive business management assistance from the SBDC and engineering assistance from the MEPs.

There are several SBDC Manufacturing Assistance Centers located throughout the country, such as in Wisconsin and Ohio that serve a large and diverse manufacturing population. Curriculum and training developed by these specialty Centers is available to the SBDC network through the SBDC national Clearinghouse.

The National SBDC network of over 1,100 centers offers one-on-one counseling and industry-specific topical training to America's manufacturing sector. In FY 2002, nearly 17,000 manufacturing businesses nationally received one-on-one counseling. In Maine, over 15% of all clients served by their SBDC in FY 2002 were from the manufacturing sector.

A pertinent example, Madame Chairwoman, is JSI Store Fixtures, Milo, Maine. JSI worked with SBDC counselors on developing a plan for and financing of a new manufacturing facility – resulting in job retention for 53 employees, and business growth and sustainability.

SCORE serves America's manufacturing sector through a multi-prong approach: online electronic counseling; face to face counseling and topic-specific training. Primary focus is on business management and strategic thinking, making sound business decisions, and positioning for growth, sustainability and job retention. SCORE has over 140 counselors with manufacturing experience available through its email counseling service "Ask SCORE," located on SCORE's award winning web site at www.score.org. That equates to 13 percent of total online counselors that are available to assist manufacturers of all sizes and disciplines. There are 17 different types of manufacturing industries/skills offered through SCORE's on-line skills list. It runs the gamut from manufacturing apparel to modular homes and windows. SCORE has proposed to enter into MOUs with the National Association of Manufacturers and other organizations representing manufacturers to create a) a broader awareness of SCORE's ability in this area and, b) to assist in recruiting more counselors with manufacturing experience from the trade association.

Madame Chairwoman, you would be happy to note that the Maine SCORE Chapters here in Lewiston-Auburn and also in Ellsworth, South Paris, Mexico, Caribou, Augusta, and Portland served nearly 3,300 clients in FY 2002.

I would like to now talk a little about SBA's efforts in export assistance and international trade. SBA's Office of International Trade oversees and delivers the Agency's business development and finance programs for small business exporters. The Office provides overall direction to staff located across the country at 19 U.S. Export Assistance Centers (USEACs) and at 68 SBA District Offices. SBA's export finance programs like the Export Working Capital Program, the International Trade Loan Program, and Export Express provide businesses engaging in, and adversely affected by, exporting. SBA also promotes export through its trade mission on-line, Export Trade Assistance Partnership (E-TAP), Export Legal Assistance Network (E-LAN), and various publications. Finally, SBA provides lender training to banks and other lenders on SBA export finance programs.

Coordination with other federal agencies is one of the best ways to achieve an increase in small-business trade participation. OIT works extensively with other Federal agencies such as the Department of Commerce and the Export-Import Bank to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business-related trade issues. The Office also supports the Administration's foreign affairs efforts, participates actively in bilateral initiatives, and is a key player on the interagency Trade Promotion Coordinating Committee (TPCC).

As you know, small businesses are crucial to American exports. Small businesses account for $300 billion in exports and 97% of US exporters. Of those, roughly 1/3 are manufacturers. Approximately two-thirds of U.S. exporters have fewer than 20 employees, while less than one percent of our small businesses export their products. That percentage is too small, especially when you consider the fact that the desire to engage in trade is strong. In order to meet the needs of small and medium-sized firms and create a "one-stop-shop" approach, over the past year we have enhanced our working relationships with our partners, including the Department of Commerce, in such a way that will guide and assist small businesses to have an even greater opportunity to trade abroad.

Over the past year, SBA and the Export-Import Bank (Ex-Im) have been very active since we entered into a "Small Business Initiative" Memorandum of Understanding. To leverage marketing resources and raise awareness among lenders and exporters, we have done a number of things. We have held joint export symposia throughout the U.S., focusing on showing a streamlined approach to exporters, and have been working on a joint marketing initiative over the past year. Although these are great accomplishments, we are still not done yet. We have established a task force to look at further integrating SBA/Ex-Im Bank working capital programs.

Another example of inter-agency coordination is our work with the Overseas Private Investment Corporation (OPIC). Just recently, SBA participated in a Trade Investment Forum in Arizona that reached out to our small business exporters and introduced them to all the products and services that are available. We see this as just the beginning to this very important partnership and only see it getting stronger. For example, SBA intends to detail one of our employees to OPIC to work with their new small business center.

Finally, the ability to work very closely with the Department of Commerce in reaching out to the small business community has been very rewarding and has shown results. I have had the opportunity to participate with Secretary Evans on several trade missions abroad which focused on opening new market opportunities for small business. Reaching out domestically to the export community has also been a high priority with SBA and Department of Commerce. For instance, we have successfully participated in major domestic trade shows, trade finance seminars, and direct mail campaigns.

In addition to these efforts I applaud Secretary Evans and the Commerce Department for taking pro-active steps to help small business manufacturers with their work on the President's Manufacturing Initiative. I am very pleased that my colleague, Under Secretary Grant Aldonas, is with us today to speak about this and I look forward to continue to work with him and his team to address the concerns of manufacturers across the country.

In closing, SBA will continue to focus on increasing its overall impact on, and the percentage of SBA-backed financing directed to, the small manufacturing sector. SBA will also continue its work to make sure the coordination of trade promotion and financing programs meet our small business exporters' needs.

Finally, Madame Chairwoman, I look forward working closely with you and your staff to meet the needs of small manufacturers and exporters. I would be happy to answer any questions you may have. Thank you.

MOOSE RIVER LUMBER CO., INC.

P.O. BOX 454 JACKMAN, MAINE 04945-0454
TELEPHONE 207-668-4193 FAX 207-668-5381

October 8, 2003

Senator Olympia Snowe, Chairperson
Committee on Small Business and Entrepreneurship

My name is C. Charles Lumbert. I am President and Managing partner of Moose River Lumber Company, which is jointly, owned by a privately owned Canadian Pulp & Paper Company and myself.

Moose River Lumber is a spruce-fir dimension lumber sawmill and employs 85 year round workers in the small, isolated, Jackman-Moose River area. We buy spruce-fir sawlogs, put them through our sawmill, dry kilns, and planer, and then ship the finished product to lumber yards throughout the entire east coast, from Maine to Florida.

The mill was constructed in 1979 and in 1996 I took on a partner in order to do an 8 million dollar modernization project. Since 1979 we have invested over 17 million dollars in capital improvements. Our mill is as modern and efficient as any sawmill in North America, but we continually struggle to survive.

With a modern, highly efficient sawmill, highly trained work force and historically high housing construction, our operation has lost money in 2 out of the last 3 years.

In our fiscal year ending June 30, 2001, we lost over 2.8 million dollars and would have been out of business had the owners not injected personal cash into the business, and with strong support from our banking partners. The reason for this major loss was that our average sale price for our products averaged only $265.41 per thousand board feet. This was our lowest sales price in 9 years.

Our average sales price for the previous 8 years had been $311.05.

Year ending June 30, 2003 we lost almost $400,000 – with an average sale price of $266.76, which was our second lowest price in 11 years.

The reason that prices plummeted to these extraordinary low prices was the influx of foreign lumber, mostly from Canada.

We have been involved in the Coalition for Fair Lumber Imports since its inception in 1983 and the Coalition, working with Government agencies have found that Canadian Lumber can be sold cheap in the United States because the Canadian Government, which owns 92% of the timberland, sells sawlogs to its sawmills under an allocation system and at below market prices.

Moose River Lumber can compete with anyone on a fair trading level, but we cannot compete with the Canadian government.

The best thing that the United States government can do for the U.S. Sawmill manufacturing business is to strictly enforce trade laws that prevent foreign competitors from selling lumber at below market prices.

HUBBARDTON FORGE®

October 17, 2003

Senator Olympia Snowe
154 Russell Senate Office Building
Washington, DC 20510-1903

Ref: International Theft of Intellectual Property

Good Morning Senator:

We understand you recently held a hearing in Lewiston to discuss, among other issues, unfair foreign trade practices dealing with intellectual property rights.

By way of introduction, we are a small lighting manufacturer in Vermont. International theft of intellectual property seriously threatens us as well as small business manufacturing in Vermont, New England and nationally. While we are not a Maine manufacturer, we are threatened by the same problem and offer to share our story with you in hopes it may be of help to all of us.

Globalization has created a challenge for companies such as ours. The products we create and produce here in the U.S. must compete against products made by low-cost labor overseas. Because we cannot possible compete on price alone, we have invested heavily in design, quality, and service. Our survival in the global business environment is largely due to the investment we make on an ongoing basis in creating unique lighting products and establishing a distinct "look and feel" that has come to be known nationally as the Hubbardton Forge® brand image.

But today, our continued existence as a U.S. manufacturer is threatened by Chinese manufacturers who are stealing our unique designs with impunity.

- During the past three years we have had about 15 products knocked off (nearly all from China); and we have been involved in litigation with two or three offenders at any one time.
- Several months ago, we became aware of an obscure importer who is currently peddling Chinese-made knockoffs of 25 or more of our core products.

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www.vtforge.com

Like other U.S. manufacturers, we have very little recourse against this type of blatant intellectual property theft. Copyrights are difficult to obtain on a "utilitarian" product such as a lamp, despite the handcrafted design. Legal methods are very expensive and untimely…with no teeth to bare in a timely manner against an importer who may flood a region with low-cost knockoffs of our designs.

We need tools to combat this threat to our existence and we would appreciate your help. We would be happy to provide you and/or others with more detailed information about the challenges that we and others face and explore some possible solutions to control the blatant theft of American intellectual property.

Enclosed for your reference are: A reprint from June 2003 Home Lighting and Accessories magazine providing some insight into who we are and what we do, photocopies of the knockoff tear sheets, our 2003 catalog and a summary sheet cross-referencing our products with the knockoffs. Also enclosed is an copy of my presentation notes to last month's SBA's Vermont Advisory Council meeting dealing with this issue.

Any assistance you can provide would be greatly appreciated.

Sincerely,

Donald R. Merkle
Chief Financial Officer

Enclosures

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www.vtforge.com

HUBBARDTON FORGE®

To: Vermont SBA Advisory Council
From: Don Merkle
Date: September 12, 2003

The issue: International theft of intellectual property

Overview:

We have all heard about the loss of manufacturing jobs to low-cost offshore competition. The latest in our area is Vermont Tubbs Furniture in Brandon, which may close within the month. This is the nature of free trade and we do not object to fair competition of low-cost foreign imports.

Our concern is unfair competition when international theft of intellectual property is involved.

How it works:

A foreign manufacturer, typically a Chinese company, on their own or at the request of an importer, targets a popular product, or an entire line, of an American manufacturer that has obtained brand recognition. An American manufacturer can spend years and a lot of money to perfect a design or a product line while the Chinese manufacturer takes only weeks to copy the American manufacturer's sales material and products. Costs for the Chinese manufacturer are unbelievably low for a number of reasons. Not only are labor costs substantially lower, but there are no development cost's, since the designs have been plagiarized. In addition, other costs are kept low at the expense of worker safety and the environment. All this is compounded by an undervalued currency.

The importer, often a newly formed shell, imports and distributes the Chinese copies at a tremendous price advantage - typically only 30 to 50 cents on the dollar. The quality, while lower in the past, has improved to the point of rivaling the American original.

In most cases the imports violate one or more U.S. design patents, copyrights (registered or unregistered) or trade dress.

Most Recent Offense

A recent offense that has come to our attention where Solebury Designs, an American Corporation, has copied the trade dress look and feel on no less than 26

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www.vtforge.com

of our core products. Enclosed for your reference is our catalog, their sales sheets and a summary sheet cross-referencing our products to their counterfeit products. All of the copied products were manufactured in China.

What is the recourse?

Basically there is no viable recourse against a Chinese manufacturer.

Large companies like Microsoft have the financial and managerial resources to do constant battle against a U.S.- based importer. However small businesses can ill afford $200,000 (at minimum) to mount a basic intellectual property lawsuit against an U.S. based importer. Even if successful, there are likely to be few, if any, attachable assets within the offending importer's corporate shell. The owners of the offending company, protected by the corporate veil, are free to form another corporation and start all over. If not, two new importers will pop up to replace the one that drops out.

What is missing?

Through investment and innovation, we believe we can compete in a world of free trade. We even think we can compete against low-cost foreign labor. However, we cannot survive the blatant theft of our innovation and intellectual property.

It is very difficult to register a copyright or receive a design patent on utilitarian products such as furniture and home accessories like lamps and lighting fixtures. Worse, the U.S. patent and copyright offices won't even consider protecting any design that is simple, clean or contemporary in nature. The greatest designers of past 100 years, van der Rohe, Ditzel, Eames, Jensen, Panton, and Brancusi could not have protected their designs under the current criteria. So basically, foreign manufacturers can knock off American designs at will.

What is missing is some kind of law, or international pressure; on foreign governments that prohibits foreign manufacturers from stealing American intellectual property with impunity.

Recommendations:

- Provide input to our U.S. negotiators regarding intellectual property enforcement standards for our free trade agreements and other international efforts.
- Impose higher intellectual property enforcement standards on trading partners who seek trade preferences to access our markets.
- Increase the level of vigilance at the border.
- Raise the stakes for the individuals involved - i.e. rather than intellectual property theft being a tort, makeng it a crime.

Solebury Designs Infringement
against
Hubbardton Forge Corporation
9/12/2003

Solebury Item #	Hubbardton Forge Item #	2003 Catalog Hubbardton Forge Page Number	Hubbardton Forge Debut Date
SD3-03-22	26-2061 & 25-1755	54	3/1/93
SD3-04-21	26-5101	56	1/1/97
SD3-05-22	26-5001 & 25-1555	54	pre 1992
SD3-06-22	26-6061 & 25-1555	49	1/12/96
SD4-01-21	24-2161 & 25-1755	55	1/9/98
SD4-02-21	24-2061 & 25-1755	56	3/1/93
SD4-07-22	24-6061 & 25-1955	48	1/12/96
SD4-09-21	24-6761 & 25-1755	45	1/8/99
SD4-10-21	24-6762 & 29-1020	45	1/7/00
SD4-12-21	24-2162 & 29-1010	59	1/8/99
SD4-16-21	24-1726	66	pre 1992
SD-5-01-21	14-2012 & 29-1010	82	1/12/96
SD5-02-21	13-2133 & 29-0829 (3)	88	1/12/01
SD5-03-21	18-232-302 & 29-0610	81	1/11/02
SD5-05-22	10-8012 & 29-0610	82	1/9/98
SD5-07-21	13-1522 & 29-1341 (2)	87	1/7/00
SD6-03-22	10-8060	97	1/12/96
SD6-04-21	14-3060	95	1/12/96
SD6-05-22	10-3050	100	1/8/99
SD6-06-21	10-7050	94	3/1/93
SD6-08-22	10-6050	97	pre 1992
SD6-10-21	14-3160	94	1/9/98
SD6-11-22	10-7070	93	3/1/93
SD7-01-21	12-3822	71	1/7/00
SD7-02-22	12-6712	71	1/7/00
SD8-04-21	20-3842	129	1/7/00
file: Copyright info/Solebury shortened chart			

SMALL BUSINESS
LEGISLATIVE
COUNCIL

SMALL BUSINESS LEGISLATIVE COUNCIL
STATEMENT FOR THE RECORD
UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEUSHIP
HEARING ON SMALL BUSINESS MANUFACTURING IN A GLOBAL MARKET

October 9, 2003

The Small Business Legislative Council (SBLC) appreciates the opportunity to comment for the Senate Committee on Small Business and Entrepreneurship on the plight of U.S. small business manufacturers. Small and medium sized manufacturing companies have seen a dramatic shift in their fortunes over the last three years. It is clear that in many manufacturing segments as much as 30 percent of the companies have gone out of business with many more hanging on by a thread. Employment in manufacturing has plummeted. America has had as many as 365,000 manufacturing companies at the peak in the 1990's and all but 15,000 of them fall within the SBA definition of a small business.

The SBLC believes in the free enterprise system of organization, whether it is in the United States, the America's or the world as a whole. That belief leads us to the conclusion that competition should be open.

The SBLC is in favor of open markets and getting rid of trade barriers and tariffs and has therefore generally supported free trade initiatives as long as there was a prospect of fair trade over time. In NAFTA we have just reached the point where trade barriers, for the most part, have come down. We still have an underdeveloped economy to the south and a northern neighbor with a large currency differential but the level of fairness in the relationships has improved.

The SBLC does not believe we have a fair trading system on the global front. We believe that the involvement of governments in the trading system, while necessary for some functions, has been tainted by political objectives in more cases than not. Whether it is the European Union, China, Taiwan, South Korea or Japan, in order to accomplish domestic political objectives these government's entities have interfered with free enterprise and distorted competitive advantage in favor of their domestic competitors.

The SBLC believes that the China market represents both an opportunity and a threat. It is an opportunity because of its population and potential market for products. It is a threat because of its underdeveloped status and government intervention to make it a global manufacturing base.

The SBLC believes that the response to China and other trading nations with government intervention into the trading system is to get the governments to back off while encouraging the U.S. government to recognize the problem of the small and medium sized manufacturers and get involved. We propose the following policies:

First: The SBLC believes that the Department of Commerce of the United States needs to change. It has become a trade assistance department for transnational companies that use the U.S. as a base for their global operations. It should be providing extensive extension services to small manufacturers to help them compete, particularly against competitors in countries where their governments are helping them. To sell an airplane in Europe or Asia American aerospace companies have to agree to manufacture a minimum of 50 percent of the plane in the purchasing country or region and this has an immediate impact on the many small business U.S. based subcontractors and suppliers. There is no such requirement when the U.S. Coast Guard buys all its helicopters from the European Union.

We support President Bush's announcement that he will appoint an Assistant Secretary for Manufacturing and Services in the Department of Commerce and call for an emphasis on helping small and medium sized manufacturers. This is only a start to the change of direction the department has to take.

Second: We support expansion of the Berry Amendment in the Defense Authorization Bill now and in the future. Defense production needs to remain in the United States. We welcome the recent announcement from President Bush and the Department of Defense supporting the Hunter Amendment. The Hunter Amendments in the 2004 bill deserve to be adopted in conference with the Senate.

What does it say about the U.S. when we now maintain only one machine tool company capable of meeting the most sophisticated military requirements? Or, when a vital component for our smart bombs is being withheld by another nation because they disagree with our policies? We shouldn't blame other nations when they differ with our foreign policy. We should, however, blame ourselves if we fail to maintain a self-reliant defense industrial base.

Third: SBLC believes that U.S. trade negotiators need to be instructed that at future World Trade Organization ministerial meetings three objectives must be accomplished.

A) Maintain U. S. existing trade laws and do not negotiate them away,

B) Insist on uniform and complete enforcement of the WTO regulations and rules on all countries, and

C) Provide for the recognition of consumers' standing in trade and tariff deliberations.

We recognize there is an inclination on the part of the Administration to use U.S. trade concessions and limited sanction of the WTO rules to achieve geo-political goals. These compromises hurt the small and medium sized employer in the U.S. and must stop.

Fourth: The SBLC believes that the U.S. government must insist that the pegging of currencies to the U.S. dollar must stop by all governments. This represents the most egregious form of government intervention in the trading system and countries like China, Japan, Taiwan and South Korea use it with impunity to give their domestic manufacturing base an advantage in the global market.

For example, the Chinese policy of pegging the yuan to the dollar has created an unfair advantage for China and is hurting U.S. manufacturers. Since 1994, China has pegged its currency at 8.3 yuan to the dollar. This has allowed China to increase exports and fuel economic development. Their success has been staggering, allowing for a $125 billion trade deficit this year alone.

U.S. Manufacturers have borne the brunt of this unfair practice. This policy has made Chinese goods 25 to 40 percent cheaper than U.S. goods, making it nearly impossible for U.S. companies to compete. Since January 2001, over 2.5 million manufacturing jobs have been lost in the U.S. These loses have devastated factory towns all across America. Action needs to be taken before we completely lose our manufacturing base.

Fifth: The SBLC will weigh all of these factors as it considers whether to continue to support Trade Promotion Authority for the Administration in the future including whether or not we will support individual and group trade agreements made by the Administration.

Sixth: We believe that tax relief is necessary to stimulate the manufacturing sector. There are different proposals currently circulating in the Congress. It is better we do fewer things and do them well. Let's not dilute the effort by trying to be all things to all businesses. Not only is not effective, we, at SBLC, believe we have to be fiscally prudent. Any relief must assist domestic production, the lifeblood of so many towns and cities across the country. Let's adhere as closely as we can, to the revenue that is available as a result of the repeal of the ETI/FSC program.

Any final legislation must be friendly to small businesses, this would include a rate reduction for all companies, including S corporations, partnerships and sole proprietors that manufacture in the United States.

With these points accomplished we would make substantial progress toward a world trading system that is more fair and closer to the ultimate free enterprise model we all want to work in. We urge the White House, the Trade Representative, Treasury, Commerce and the Congress to work aggressively on all of these points.

The policies of the transnational companies have to come under public scrutiny. The announcements by Ford that they will source 10 billion dollars of parts from China and by General Motors that they will source 20 billion in parts in China means that they will be shipping U.S. jobs offshore and lowering the U.S. standard of living. Who will buy their cars?

The simple reality is manufacturing is essential to a healthy local economy. Local manufacturing jobs support the local retail community and manufacturing operations support local service providers.

Congress must be conscious of the cost it continues to impose on operating in the United States. Whether it is the cost of insurance of all kinds, increased regulation, increased taxes at the state level, inaccessibility of capital, inaccessibility of defense and government contracts, tariffs on consumables needed by small and medium sized manufacturers or other trade barriers, industry needs relief.

In summary, the SBLC wants the U.S. government to quit giving away our competitive advantage. We are not asking for protection, only a fair trading system. Stop supporting a strong dollar, stop letting less developed countries off the hook on the international trading rules, stop allowing other governments to peg their currencies and stop imposing costs on small and medium sized companies through taxes and regulations without any help on finance or procurement set asides that are ignored by government agencies.

The nation needs to preserve American infrastructure so we can have high value added jobs in the United States.

The SBLC is a permanent, independent coalition of 70 trade and professional associations that share a common commitment to the future of small business. Our members represent the interests of small businesses in such diverse economic sectors as manufacturing, retailing, distribution, professional and technical services, construction, transportation, tourism and agriculture. Our policies are developed through a consensus among our membership. Individual associations may express their own views.

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