The Manufacturing Council
WASHINGTON, D.C. 20230

Background On Policy Recommendations:

- **Energy Independence**
- **Trade Balance**
- **Workforce Competency**
- **Domestic Structural Costs**

December 15, 2009

Summary of Manufacturing Council Recommendations

The two most important actions the Administration can take to create manufacturing jobs are to reduce our dependence on imported oil and to enforce existing trade rules with China.	
Primary Strategies	
Reduce Oil Imports	1. Adopt an Integrated Approach to Energy Independence in the Transportation Sector 2. Develop Clear, Consistent and Long-term Policy Support for Alternative Energy Markets 3. Increase Domestic Traditional Energy Sources As A Bridge 4. Support the Manufacturing Sector in Achieving Efficiency Gains and Renewable Energy Production 5. Support the Creation of Domestic Supply Chains for the Energy Sector
Correct Trade Imbalances With China	1. Eliminate Trade Barriers 2. Control Currency Manipulation 3. Enforce Existing Trade and Intellectual Property Laws 4. Advocate Eliminating Trade Disadvantages from Border-Adjusted Taxes
Supporting Strategies	
Make the National Workforce Development System Responsive to the Needs of Manufacturers	1. Build Collaboration Between USDOC and USDOL on Manufacturing Workforce Initiatives 2. Assure Industry Involvement and Leadership in Skill Initiatives 3. Build Employer Engagement at the Regional Level 4. Support Industry-Defined and Competency-Based Credentialing Systems for Key Sectors 5. Support the National Career Readiness Credential as a National Work Readiness Tool 6. Build Awareness of Manufacturing Careers in Middle and High School
Eliminate U.S. Business Cost Disadvantages	1. Conduct On-Going Sector Analysis to Understand and Address Industry-Specific Competitiveness Issues 2. Reduce the Cost of Credit for Small and Medium-Sized Businesses 3. Restructure Domestic Taxes to Make Manufacturing More Competitive and Increase Domestic Job Creation 4. Focus Health Care Reform on Per Capita Cost Reduction Through Continuous Improvement 5. Avoid Increases in Energy Costs that Will Significantly Impact Domestic Manufacturing Competitiveness 6. Avoid New Un-Funded Employee Benefit Mandates 7. Continue Progress on Tort Reform 8. Undertake Cross Agency Review of New EPA Regulations 9. Implement International Harmonization

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Reduce Oil Imports

Eliminate U.S. dependence on imported energy supplies and transition our energy sources from fossil fuels to renewable energy sources.

The urgency of addressing the nation's energy security and diversity has only increased since the Council's recommendations were made in 2008. Despite short term depressions in energy prices due to the global financial crisis, we continue to face long-term shortages, as well as the need to transition to renewable energy sources.

The manufacturing sector is strongly linked to the energy sector in three ways:

- Manufacturing prosperity is driven by overall rates of economic growth, which are highly dependent on energy policy and strategy.

- Manufacturing is a large consumer of energy – both in the form of direct energy use, and in the form of feedstocks that drive from petroleum sources.

- Manufacturing is a large producer of the technology, goods and services that are used in energy production, distribution and consumption.

Our updated recommendations address the interests of the manufacturing sector in each of these areas.

1. Adopt An Integrated Approach to Energy Independence in the Transportation Sector

   The US transportation industry consumes approximate 30% of all domestic energy and uses virtually 100% of our imported oil. Energy independence in the transportation sector will require the implementation of three related strategies simultaneously:

   - Development of new domestic sources of alternative fuels (hydrogen; electricity; bio-fuels; etc.) that can be easily transported and used in vehicles.

- Improvements in the operating efficiencies of the existing vehicle fleet (through improvements to the internal combustion engine).
- Reengineering of the vehicle fleet to be able to use alternative fuels (electric vehicles; plug in hybrids; hydrogen fuel cells; etc.).
- Development of a national distribution system to make the alternative fuels easily available to consumers.

This four-pronged strategy will require coordination across federal agencies – it cannot be implemented by any one department. Progress in any one area will not achieve the national objective unless it is linked to the other elements.

The Administration should develop an explicit plan for implementation of these four strategies, and should form an interagency task force between USDOC, USDOE and USDOT to coordinate on the implementation of the plan.

2. <u>Develop Clear, Consistent and Long-Term Policy Support for Alternative Energy Markets</u>

Attracting private investment capital to the task of building the alternative energy sector requires consistent policy that signals a long-term commitment to growing these markets. Private capital will not migrate to markets that are supported in "fits and starts."

Consistent national policy to build alternative energy markets is necessary to avoid potential "energy shocks" as demand exceeds supply because consumption grows without the requisite production growth. Geopolitical disruptions in the context of high levels of oil imports can create these shocks in very short time frames – time frames that are far too short for even large price increases to stimulate supply increases to make up the gap. Forward-looking policies to develop the renewable markets in advance of scarcity in traditional energy markets is necessary to avoid these disruptive "roller coaster" experiences that are so damaging to our national economy, and to protect our economy from unwanted disruption from outside influences.

The Administration should clearly identify these national policy "signals" that will attract long-term private capital investment to alternative energy markets, and should make their implementation a priority. Examples of such national policy commitments include:

- A national renewable energy standard
- Decoupling of utility profits from energy production
- National green building and appliance efficiency standards

3. Increase Domestic Traditional Energy Sources As A Bridge

While conservation and alternative sources are long-term solutions, in the interim we will need to increase traditional domestic sources to significantly reduce and/or eliminate oil imports. We need to replace imported oil and natural gas with domestically produced energy through a major effort to significantly increase traditional domestic oil and natural gas supplies through exploration and drilling both offshore and onshore. The increase in domestic exploration provides a bridge to a renewable energy world. Additional strategies to increase domestic supply include investments in advanced coal and accelerated development of new nuclear plants.

4. Support the Manufacturing Sector in Achieving Efficiency Gains and Renewable Energy Production

US manufacturers consume approximately one-third of all energy in the country. Therefore, conservation, energy efficiency and alternative energy production strategies by manufacturers are a critical element of a national energy independence strategy.

The Administration should continue to support efforts such as the Section 1603 "Energy Grants in Lieu of Tax Credits" program that assist manufacturers in implementing energy efficiency and alternative energy plans.

5. Support the Creation of Domestic Supply Chains for the Energy Sector

Energy independence will create substantial opportunities for manufacturing within each of the important energy production and energy efficiency value chains. The "clean energy economy" means the making of new equipment, components and technology. It is critical that this supply chain be built here in the U.S. and not overseas.

The USDOC should invest in the analysis of clean energy supply chains to more fully understand and support opportunities for new business and new job creation to support the clean energy economy.[1] Economic development incentives should be prioritized to support the creation of jobs in these sectors.

[1] The recent report by Duke University, "Manufacturing Climate Solutions" is an example of the kind of detailed value chain analysis that needs to be undertaken.

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Correct Trade Imbalance With China

Remove barriers to free trade, and enforce trade laws against illegal tariffs, subsidies and currency manipulation, which have caused our unsustainable trade deficit.

Our trade imbalance drains critical resources from our economy and results in the loss of manufacturing jobs to overseas competitors. Since 1991, the U.S. trade deficit has increased by over 12-fold, from $67 billion in 1991 to $816 billion in 2008. Petroleum imports accounted for 43% of the 2008 trade deficit. China accounted for 33% of the 2008 trade deficit, and 46% of the year to date deficit in 2009. In manufacturing alone, China was responsible for over 60% of the trade imbalance.

The cause of our trade deficits has not been uncompetitive goods and services – but rather weak enforcement of the rules of free trade and the terms of our trade agreements. Many of our trading partners still engage in essentially “mercantilist” trade practices that create artificial barriers to imports and heavy subsidies for exports, as well as illegal lures to foreign investment.

We believe that the U.S. has entered into its international trade agreements in good faith. However: 1) many of our partners have not made good on their promises to create access to their markets; and 2) we have failed to aggressively enforce the terms of our agreements. Rebuilding the strength of our domestic manufacturing economy will require correcting these mistakes.

It is important to note that there are some significant differences of interests within the broad U.S. manufacturing community on this issue. Some trade associations are dominated by the larger multi-national companies who have developed business models based more on the importation of cheap foreign goods than on domestic production. These companies have been strong advocates of the current trade regime. Companies that are more focused on domestic production – like many of the members of the Council – instead favor a different trade regime that more clearly supports domestic producers and eliminates unfair and illegal foreign competition.

Our specific recommendations include the following:

1. Eliminate Trade Barriers

   Pursue aggressive reductions in tariff and non-tariff barriers with key trading partners, especially China, and vigorously enforce existing trade laws and trade agreements.

2. Eliminate Currency Manipulation

   Advocate elimination of currency manipulation by all trading partners, and impose import duties in proportion to the level of cost advantage that currency manipulation (the difference between the current currency value and its value if it were allowed to float against international currency) provides to importers. Currency manipulation should be treated as a subsidy in all trade cases as per WTO rules.

3. Enforce Intellectual Property Protection

   Improve Intellectual Property Rights (IPR) enforcement and in particular enhance law enforcement cooperation with China on IPR violations.

4. Advocate Eliminating Trade Disadvantages from Border-Adjusted Taxes

   Effectively eliminate the competitive disadvantage for domestic manufacturers caused by the use of border adjusted taxes by all of our trading partners. Any U.S. tax reform being considered must effectively address this issue.

Align the Workforce Development System to the Needs of Manufacturers

Build a skilled talent pool of proficient graduates in the engineering, math, sciences and skilled trades career tracks to meet the talent needs of an advanced manufacturing sector.

When our trade deficit is corrected through reduced oil imports and enforcement of fair trade provisions with China, this will create new jobs for American workers as American manufacturing companies will regain domestic market share and export more to foreign markets.

Responding to this increased demand for skilled labor will require **retooling of our national workforce development system**. Our specific recommendations for assuring the availability of a skilled and motivated labor force for manufacturing are described in detail below.

We understand that the focus of the Obama administration is on the development of the "skilled blue collar" labor market – what is also sometimes referred to as "middle skill jobs." These are occupations that require some significant education and training beyond high school but less than a bachelor's degree.[2] This category of skilled labor is critical to, and drives much of the productivity of the manufacturing sector.

1. Build Collaboration Between USDOC and USDOL on Manufacturing Workforce Initiatives

   Transforming the national skill development system to support the revitalization and competitiveness of the manufacturing will require a partnership between the USDOL (especially the Employment and Training Administration, which manages national workforce development funds); the USDOC, which is responsible for supporting the competitiveness of the U.S. business base; and private trade associations that represent the employer community.

[2] For a description of this job segment, see: "America's Forgotten Middle Skills Jobs" by the Skills2Compete campaign.

The Administration should assure that there are structures in place to support collaboration between USDOC, USDOL and industry organizations on a national strategy to transform workforce systems to support manufacturing competitiveness.

2. Assure Industry Involvement and Leadership in Skills Initiatives

Too many government skill development initiatives have been designed, launched and delivered without the “voice of the industry customer” being clearly at the table and driving decisions. Resources are typically provided to and controlled by the “suppliers” (education and workforce development organizations) instead of the customer. As a result, talent suppliers (education and workforce development) often deliver talent that does not meet employer specifications or quality requirements.

We believe this system needs to be “turned on its head” and employers need to be much more directly in the driver’s seat – directing how these resources are used to support skill development that meets the needs of employers, who make the hiring decisions. All workforce development and education initiatives that are designed to serve the needs of the manufacturing sector need to include deep involvement and governance engagement by leaders of the manufacturing sector.

3. Build Employer Engagement at the Regional Level

Labor markets are regional in nature, so the organizing infrastructure at the regional level needs to be structured to ensure employer leadership. There are two principal ways this can be accomplished:

- Building regional employer councils that direct the investment of workforce funding to support the specific skill needs of the manufacturing sector. (These councils can be multi-sector in focus when needed, with common processes across sectors.)[3]
- Developing regional skills demand forecasting systems led by employers that ensure that the talent supply systems are aligned with what employers actually need. These forecasting systems would be an important regional economic development driver, helping to align regional assets around employer-defined growth opportunities.

[3] The Health Care Employers Council in West Michigan is an example of such a regional employers council.

4. Support Industry-Defined and Competency-Based Credentialing Systems for Key Sectors

   The National Association of Manufacturers (NAM) has taken a leadership role through its Manufacturing Institute in developing integrated sector based credentialing systems. The NAM-endorsed Skills Certification System begins the hard work of building an industry-defined set of "stackable" credentials that clearly define skills requirements; link them together in career pathways; and connect them to education and training opportunities. This system is based on the "competency model" design developed by the USDOL.

   The USDOC should collaborate with USDOL and USDOE on the support and advancement of these models in the manufacturing sector.

5. Support the National Career Readiness Credential as a National Work Readiness Tool

   The National Career Readiness Certificate (NCRC) was developed by ACT, Inc. and is based on research into the skill requirements of more than 16,000 occupations. The NCRC establishes basic skill levels in reading, math and locating information.

   Both the manufacturing sector (through the NAM-endorsed Skills Certification System) and the construction sector (through the National Center for Construction Education and Research – NCCER) have standardized on the NCRC as the entry-level "foundational skills" credential for their sectors. The NCRC is being explored as a foundational skill credential by several other industry sectors. In addition, over 30 states have one version or another of a state certificate based on the NCRC.

   The NCRC can be used to drive quality into the education and training supply chain. For young people preparing for a job, it provides them a credential that validates that they are ready for entry level employment. For transitioning workers, it validates the skill levels they have attained and helps focus training on filling skill gaps.

   USDOC and USDOL should endorse the use of the NCRC by employers, states and education/workforce development systems nationally.

6. Build Awareness of Manufacturing Careers In Middle and High School

   A recent NAM-sponsored study ("Public Viewpoints on Manufacturing") found that while 72% of Americans believe that a strong manufacturing sector should be a national priority, only 30% of Americans want their children to pursue a career in manufacturing.

To counter this perception of manufacturing as an undesirable occupation and increase interest in manufacturing career pathways the federal government should support and enable programs that:

- Reinforce Career and Technical Education (CTE) as a viable career pathway and educate students on career options that do not require a four year college degree.
- Build awareness of manufacturing careers as a positive and quality employment option, beginning in middle school, and including high school internships, job shadowing and mentoring.
- Support STEM educational pipeline activities, including fast-track teacher credentialing for retirees from science, math and technical fields.
- Create industry partnerships that directly connect employers with educators and make education directly relevant to the world of work.

There are many good best practices already available that do not have to be reinvented in this area. These include programs like Project Lead the Way for High Schools, Gateway to Technology for Middle Schools, and Industry Residence.

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Eliminate U.S. Business Cost Disadvantages

Eliminate the 17%+ domestic cost disadvantage that American manufacturers have compared to our major trading partners.

The domestic economic situation has changed quite dramatically since the Council made its 2008 recommendations. It is more important than ever that the domestic cost of doing business not impede economic growth and job creation. As domestic and foreign markets are re-opened to American companies, we will also need to **overhaul the U.S. business tax system** to eliminate structural cost differences with our trading partners.

In the context of this changing environment, some new actual and potential cost issues have emerged that we believe warrant attention. These are noted in our updated recommendations below, some of which amplify on our December 2008 recommendations, and some of which address new issues.

While we understand that tax reform is the responsibility of the Treasury Department and not the Commerce Department, we believe it is important for the Secretary of Commerce to take an active role in tax reform that will enhance the competitiveness of domestic manufacturing.

1. <u>Conduct On-Going Sector Analysis to Understand and Address Industry-Specific Competitiveness Issues</u>

   The Council is a volunteer organization without significant staff support and little capacity to conduct on-going competitiveness analysis. In our interactions with the USDOC, it has become clear that the Department does not have a strategically focused analytical capacity to understand and address the issues of the international cost competitiveness of manufacturing – either at the level of the sector as a whole, or on an industry by industry basis.

   We recommend that USDOC, the US Trade Representative, the ITC and other parts of the federal government collaborate to develop this capacity and conduct an ongoing analysis and reporting of international markets and the competitiveness of the domestic manufacturing sector, including by sub-sectors.

This analysis can inform an intelligent and focused approach to competitiveness of our domestic business climate and success of our manufacturing sectors.

2. Reduce the Cost of Credit for Small and Medium-Sized Businesses

   The limited availability and high cost of credit for businesses is significantly reducing job creation potential. Many healthy businesses have lost or had to refinance their lines of credit at much higher interest rates over the last 12 months. Financial institutions that experienced business losses on bad real estate loans are recouping those profits by imposing higher costs of capital on business customers. We have two recommendations in this area:

   - The Administration should support efforts to expand the availability of critical growth capital to domestic manufacturing.
   - The Administration should assess the impact of proposed financial institution reforms on the manufacturing sector. In particular, we are concerned about proposals to put community banks (that finance much of the credit for small and mid-sized manufacturing) under the same regulatory structure as large national and international banking institutions.

3. Restructure Domestic Taxes to Make Manufacturing More Competitive and Increase Domestic Job Creation

   The Council has a subcommittee that is working on a more comprehensive approach to domestic tax reform. In the interim, we make the following recommendations:

   - The Alternative Minimum Tax (AMT) should be restructured to allow accelerated depreciation; use of R&D tax credits to offset liability; and allow deductions for state taxes.
   - The inheritance tax exemption limit should be set at $5 million per individual and $10 million per couple, and the tax rate should be set at 35%.
   - The federal R&D tax credit should be made permanent and should be set at a rate that is more competitive with OECD nations.
   - The Subpart F active financing exception should be made to be competitive with other nations.
   - The Domestic Production Activities Deduction allows domestic manufacturers to take a 6% deduction against net income for qualified production costs. This deduction increases to 9% in 2010. This deduction can have a significant impact on company global competitiveness and therefore the ability to retain and create jobs. The Administration should support the continuation of this tax deduction and consider increasing it to 12%.

4. Focus Health Care Reform on Per Capita Cost Reduction Through Continuous Improvement

   We are aware that significant attention is being paid to reform of the U.S. health care system. We are also aware that our U.S. per capita costs are significantly higher than our competitor economies, despite their superior health outcomes.

   While expanded coverage is an important system goal, we believe there needs to be a laser-like focus on simultaneously reducing per-capita domestic health care expenditures. This will require a deep process of continuous improvement and waste reduction, including the standardization of care around scientifically-established treatment protocols.

5. Avoid Increases in Energy Costs that Will Significantly Impact Domestic Manufacturing Competitiveness

   We recommend the Administration make it a high priority to avoid any legislation, regulation or policy in the field of energy or environmental protection that places American producers at a competitive disadvantage by imposing undue costs or by failing to ensure that imported goods must meet the same standards, obligations and requirements as domestically produced goods.

6. Avoid New Un-Funded Employee Benefit Mandates

   The Administration should oppose the mandating of new un-funded employee benefit costs on employers that reduce their cost competitiveness and have the potential for retarding job recovery in our economy. Examples of such an un-funded mandate include proposed changes to the Family Medical Leave Act, and the recently proposed legislation that would require employers with 15 or more employees to provide up to five days of paid sick leave to employees who are directed to leave work or remain at home as a result of a contagious illness, such as the H1N1 influenza virus.

7. Continue Progress on Tort Reform

   The Administration should analyze the competitiveness of our tort structure in comparison to other countries to improve our international competitiveness.

8. Undertake Cross Agency Review of New EPA Regulations

   The Administration should undertake a cross-agency review of proposed EPA regulations on greenhouse gas emissions to more thoroughly understand their impact on manufacturing before being implemented.

9. Implement International Harmonization

The Administration should implement a senior-level regulatory forum to take international harmonization into account when promulgating or making changes to regulations.