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THE MANUFACTURING COUNCIL

September 27, 2005
9:30 a.m.
Gateway Building, 2nd Floor Meeting Room
Peoria, Illinois

PRESENT:

KAREN BUCHWALD WRIGHT
President and Chief Executive Officer
Ariel Corporation

ALBERT A. FRINK
Assistant Secretary for Manufacturing and Services

JAMES OWENS
Chairman and Chief Executive Officer
Caterpillar Inc.

JOE BOGOSIAN
Deputy Assistant Secretary for Manufacturing

DAVID SAMPSON
Deputy Secretary of Commerce

FRED KELLER
Chairman and Chief Executive Officer
Cascade Engineering

WAYNE MURDY
Chairman and Chief Executive Officer
Newmont Mining Corporation

MARKOS TAMBAKERAS
Chairman, President and Chief Executive Officer
Kennametal

CHARLES PIZZI
President and Chief Executive Officer
Tasty Baking Company

EDWARD F. VOBORIL
Chairman and Chief Executive Officer
Greatbach, Inc.

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PRESENT: (cont.)

HARDING STOWE
President and Chief Executive Officer
R.L. Stowe Mills, Inc.

MICHAEL NOWAK
President and Chief Executive Officer
Coating Excellence International

1 KAREN BUCHWALD WRIGHT: I would like to
2 call the meeting Of the Manufacturing Council to order
3 today on September 27th in Peoria, Illinois. I'd like
4 to thank everyone for making the trip to beautiful
5 downtown Peoria where it is always sunny like this
6 today.

7 I'd especially like to thank Jim Owens for
8 hosting us.

9 Don Wainwright, Chairman of our Council, has had
10 a family emergency and couldn't be with us, so I'll be
11 chairing the meeting today. So bear with me because it
12 is kind of spur of the moment. I'll try to do my best.

13 We also would like to welcome all the local
14 citizens who are here today, various manufacturing
15 associations, businesses associated with Caterpillar,
16 the members of the press, and we will open the meeting
17 for comments later on in our agenda.

18 A couple things we would like to talk about
19 before we get to the various Subcommittee presentations
20 and recommendations.

21 First of all, we would like to welcome a new
22 member of our committee, and that's Ed Voboril. Ed is
23 the Chairman, President and CEO of Greatbatch,
24 Incorporated, which is near Buffalo, New York, and

1 they're a leading manufacturer of high-tech medical
2 device components. We're happy to have you here with us
3 today.

4 I'd also like to recap our last meeting in May
5 in Washington D.C. We met with Congressman Manzullo and
6 some other members of the Congressional Manufacturing
7 Council for a round of discussion and back and forth on
8 some of the various perspectives of Congress on
9 manufacturing and also the Council.

10 We had a discussion on various things such as
11 workforce retraining, supportive innovation and
12 creativity, also job creation in the manufacturing
13 sector.

14 We talked about CAFTA and our support for that
15 particular -- I don't know what you would call it.

16 JAMES OWENS: Agreement.

17 KAREN BUCHWALD WRIGHT: Agreement. We also
18 would like to thank Hardy. President Bush visited
19 Hardy's plant right before the captive vote, and he
20 probably single-handedly managed to get that passed with
21 Congress. So thanks, Hardy.

22 Plus, we're all really jealous that the
23 President visited you.

24 Additionally, we talked about China, which is

1 something that impacts manufacturing in, really, all
2 American business significantly and will continue to be
3 a very important topic of discussion for all of us.

4 One of the things that we will be hearing about
5 on our Subcommittee report we'll discuss the world
6 tungsten supply which has to do with China.

7 For me the most memorable aspect of the last
8 meeting was the fact that we got evacuated from the
9 place where we were having our meeting, along with
10 30,000 other people, ran outside, were told to go south.
11 So that was very interesting, and we heard reports that
12 there were two F-16s flying around and then found out it
13 was a Cessna. So that was pretty interesting. Not
14 something you get to do every day.

15 As we meet today in Caterpillar Country, we're
16 going to discuss several Subcommittee reports on
17 bankruptcy in the auto industry supply chain, we're
18 going to talk about corporate tax burden, and also the
19 critical global tungsten supply issue.

20 Before we start, we're honored to welcome
21 Dr. David Sampson who is now the Deputy Secretary of
22 Commerce. David has worked with President Bush on
23 cultivating government support for private sector for
24 over a decade starting with the President and CEO of

1 Arlington, Texas Chamber of Commerce, then serving as
2 the Chairman of the Texas Council on Workforce and
3 Economic Competitiveness, Vice Chair of Texas Strategic
4 Economic Development Planning Commission, the Assistant
5 Secretary of Commerce for Economic Development, and now,
6 most significantly, the Deputy Secretary of Commerce.

7 He is, essentially, the chief operating officer
8 of the Department of Commerce with 38,000 employees and
9 an operating budget of \$6.5 billion. Without further
10 adieu, we would like to welcome you.

11 DAVID SAMPSON: Thank you, Karen. It is a
12 real pleasure to be with you all today. I was thinking
13 back to that May time when you were evacuated. I was
14 sitting in the Secretary's dining room that day, and I
15 got a call on my cell phone from a banker friend of mine
16 in Texas saying, Are you okay? I said, As far as I
17 know. Why? Should I be concerned about something? He
18 said, Well, they're evacuating the capital. And I was
19 sitting there near my office, and somehow I missed all
20 the excitement.

21 KAREN BUCHWALD WRIGHT: It was exciting.

22 DAVID SAMPSON: You can be right at the
23 center of things and still not know what is going on, I
24 think, is the lesson there.

1 That's why I'm out visiting with you all today
2 because I'm going to find out what's really going on. I
3 look forward to participating in your meeting.

4 First of all, let me thank Jim Owens for hosting
5 the Council here in Peoria, a gracious host, and it is a
6 real privilege to be here and visit a truly great
7 American company with global reach.

8 I think of the building of America in the
9 Twentieth Century construction, you just have to think
10 Caterpillar is synonymous with that, and now playing a
11 major role in building greater economic opportunity and
12 infrastructure all over the world.

13 I was sharing last night one of my earliest
14 memories was sitting on my dad's lap, a prewar
15 Caterpillar dozer we moved brush with on our family
16 farm. That old dozer now, Caterpillar, is still sitting
17 in a barn on a farm. One of these days, I hope to have
18 a little time to restore that.

19 My goal in life, after I serve my time as Deputy
20 Secretary of Commerce, is to become a heavy equipment
21 operator. So I'm really excited to be here today and
22 look forward to touring the plant.

23 I thank the Council for all your hard work and
24 for your service to the nation. Your time and

1 commitment are truly making a difference.

2 I also want to thank the members of the public
3 and local manufacturers who are here today. Your
4 insights are vitally important. We encourage you in the
5 public comment period. It is extremely important that
6 we hear what's really going on out there in
7 manufacturing operations around the country.

8 Your input, work with this Council, is very
9 important to help President Bush and his entire
10 administration and more broadly the U.S. government to
11 understand the challenges that you face and help
12 prioritize the policy issues that we need to focus on.

13 As Karen mentioned, I have spent most of my
14 professional life in the fields of working in economic
15 development in one form or fashion, corporate site
16 selections, trying to build a strong communication
17 channel between the public sector and the private
18 sector.

19 We know that the private sector is where wealth
20 is created, but the public sector has a very important
21 role in creating conditions in which the private sector
22 can do what it does best, which is risk capital, make
23 investments, create jobs and create wealth.

24 Although the Department of Commerce has always

1 been the voice of business in the United States
2 government, that's what it was created for,
3 manufacturing did not have a single point of entry and
4 contact until President Bush nominated Al Frink to serve
5 as Assistant Secretary of Manufacturing Services. Al
6 has made a real contribution in the time he has been on
7 board, I guess a little more than a year now?

8 ALBERT FRINK: Year and two weeks.

9 DAVID SAMPSON: I knew we were close. He
10 is a manufacturer. He comes from that kind of
11 background. I really appreciate his willingness to
12 serve in this capacity.

13 As one someone who came from the private sector
14 into public sector to serve in this administration, I
15 can tell you that it is not an easy thing to do. It is
16 not an easy process to go through the Senate
17 confirmation and divestiture and everything, and I think
18 we're very fortunate that Al is willing to serve not
19 only the President but the nation, the manufacturers. I
20 encourage you to make full use of his office. I want
21 you to wear him out over the course of the next three
22 years, okay? That's my charge to all of you.

23 I find the group that's around this table to be
24 very impressive. It is a combination of, I guess, in

1 the scheme of global companies, small, family owned
2 companies and yet companies with global reach. That
3 reflects the priorities of President Bush and Secretary
4 Gutierrez. We know the strength of the American economy
5 is based on entrepreneurship and that even great local
6 companies like Caterpillar started with entrepreneurial
7 ideas. They weren't always -- they didn't start out as
8 big as what they are today.

9 Each of you has a very important role. You were
10 selected for this Council because of your experience in
11 business, because of the industries that you represent,
12 and we encourage you to make sure that your views are
13 fully known, fully engaged, bring your experience to the
14 table.

15 Obviously, we gather at a time when natural
16 disaster and hurricanes are here. Last month we
17 experienced a very natural tragedy and devastation of
18 Hurricane Katrina, this past week it was Hurricane Rita.

19 As the nation copes with the aftermath of these
20 storms, companies large and small have contributed
21 money, equipment, manpower to a massive recovery effort
22 that is unique in our national history. I applaud all
23 of your selfless efforts by the companies represented
24 here today. Many have donated funds to the Red Cross,

1 Salivation Army and United Way. Wayne Murdy and Newmont
2 Mining Company donated \$100,000 to sponsor Dave Matthews
3 Band concert for hurricane relief. Ford has donated
4 trucks and SUVs, vans. Ford dealers from Texas are
5 housing evacuees. Caterpillar, our host today, they,
6 their employees, have donated over \$2.5 million in cash,
7 equipment and products. I am sure that we're going to
8 see that outpouring continue in these months ahead as we
9 have to deal with Rita and its aftermath as well.

10 The Department of Commerce, at the request of
11 the White House, has set up a hotline for the purpose of
12 being the federal government's single point of contact
13 for businesses that want to contribute. The response
14 has been impressive. Today over 700 calls and e-mails
15 have been received by the call center, and our call
16 center serves to match corporate generosity with needs
17 that actually exist on the ground because we have staff
18 in the field offices in the affected states. We're
19 updating the critical needs every single day, and we're
20 working to mesh that corporate generosity with the
21 actual needs.

22 We've seen a number of successes. Salt Lake
23 City Company is sending diabetic test kits to the
24 evacuee centers. The Dallas Company is shipping

1 chemicals to remove mold from concrete. Pfizer is
2 sending thousands of packets of hygiene and medical
3 kits. Armco Services has offered to donate \$10 million.

4 Let me give you that number of that call center
5 is 1(888)4USADOC. That's 1(888)4USADOC.

6 President Bush has pledged to rebuild New
7 Orleans and the Gulf Coast area, to rebuild it with
8 greater prosperity than before. We're going to do that.
9 Government has a role to play, an important role to
10 play, but civil society and the private sector also has
11 a very important role to play as well.

12 President's rebuilding plan is a clear vision.
13 It is market driven. It is based on the strong belief
14 that to rebuild the affected region we have to get the
15 market back up and running again. We've got to rebuild
16 infrastructure. We've got to incentivize capital
17 investment for our people to make decisions about their
18 own lives and not create massive new layers of
19 government.

20 He is proposing the creation of Gulf Opportunity
21 Zone to provide tax incentives and loans for businesses
22 and entrepreneurs to invest in the region. Worker
23 recovery accounts and an urban homesteading issue to
24 provide a new beginning for lower income evacuees.

1 So that's consuming a lot of our time and
2 attention these days, but I want to assure you the
3 Manufacturing Council does not go by the wayside. We
4 have a strong economy. Projections from blue chip
5 economists are that we're going to continue to see
6 strong economic growth into -- well into 2006. The
7 manufacturing sector plays a critical role in that. We
8 have a lot of work left to do over the course of the
9 next several years, and you have an important role to
10 play.

11 I encourage you -- as a matter of fact, I'm
12 asking you out of this meeting to help us identify the
13 top three to five action items that you really want the
14 Department of Commerce and the administration to focus
15 on. We need an actionable number with clear priorities
16 that hit the real leverage points in helping the
17 manufacturing sector continue to grow and expand.

18 I pledge to you we'll take those recommendations
19 seriously. We've already got a track record of having
20 done that with the Manufacturing in America report. We
21 will continue to do that over the course of the next
22 three and a half years of the second term.

23 Thank you for letting me be with you today.

24 KAREN BUCHWALD WRIGHT: Thank you very

1 much.

2 Now I would like to call on our very own Al
3 Frink who is the Assistant Secretary for Manufacturing
4 and Services and the Director of Manufacturing and
5 Executive Director of the Manufacturing Council.

6 ALBERT FRINK: Thank you, Karen. Thank
7 you, also, very much, Dr. Sampson, for asking everybody
8 to wear me out.

9 DAVID SAMPSON: Make sure the tax payers
10 get their money worth.

11 ALBERT FRINK: One little add to that story
12 about the run from the buildings during that supposed
13 thought of two F-16s. It occurred to me after we had
14 scampered out of the building and Karen was to my right
15 as we were leaving is that we had left that building,
16 went about a half mile down the street --

17 KAREN BUCHWALD WRIGHT: South.

18 ALBERT FRINK: -- south. We waited for
19 instructions to head back. We then went back and went
20 through security. 32,000 plus people left and came back
21 and checked in and were back to their posts within an
22 hour. So if anybody thinks that Homeland Security and
23 some of the people on the ground are not doing their
24 jobs should have been there to see the efficiency. I

1 don't think you could clear a football team that quick.
2 It was quite an experience.

3 Again, back to the point. Thank you very much
4 for the kind words, and I, also, share that the concerns
5 that Dr. Sampson expressed with regards to the Katrina
6 people.

7 I encourage all of you to spread the word about
8 the Heartland Congress Relief Center we have, the call
9 center. We have that being manned from 8:00 in the
10 morning until 8:00 in the evening, seven days a week. A
11 lot of people in all of our staffs are working this.
12 That call center is designed to match up people who want
13 to help with people who need it, and it is working.
14 They're getting about 70, 80 calls a day.

15 Just a side note, the National Association of
16 Manufacturing, which is the biggest industry group, has
17 thus far extended about 80 million in cash and another
18 25 million in kind. So they're well over the
19 100 million in contribution. They even offered, members
20 who make products for those companies who are displaced,
21 provide trucking, warehousing. It has truly been an
22 American spirit coming to the aid of us American people
23 in the time of need. I'm very proud of the
24 manufacturing sector and the people here who have done

1 that as well.

2 Let me talk again about the manufacturing state
3 of it, the general economy and how it is looking. I
4 think that you should be pleased to know that there is a
5 lot of work to be done but that the manufacturing sector
6 is doing quite well. Its shipments in July were up
7 about 1.1%. That's 8.2% over the same period last year,
8 and that's a great increase.

9 We have in August 3/10ths of a percent in
10 productivity growth. That's a 5% annualized.

11 There is an institute that measures progress in
12 a lot of industries. It is called ISN, Institute for
13 Supply Management. They stated that manufacturing
14 production is now at 56% in August. That makes it
15 now -- by the way, 50% or above constitutes growth. Now
16 we have 27 months of continuous growth in manufacturing
17 and that's the longest period of growth in 16 years.

18 So all of this, we believe, reflects the
19 President's tax cuts and they are working, as we have a
20 general national unemployment of 4.9 compared to the
21 European union, which is at just about 9%. We're almost
22 at half of what that combination of countries is.

23 So American's industry is thriving. We're still
24 25% of the world's GDP. And manufacturing, I heard

1 yesterday in regards to patents, we are getting patents
2 at a rate of 180,000 a year, about 80,000 are getting
3 approved. So we're approving about 80,000 patents a
4 year and 90% of those come from manufacturers.

5 So to say manufacturing is the engine of --
6 describing the economy as the engine of innovation, we
7 have a lot of work to do. That's partly why we're here
8 as a Council.

9 On trade, there are many folks working at
10 accomplishing, and a lot of what I have to do in my job
11 is look at leveling the playing field. CAFTA was a big
12 step in that direction. This summer we saw the passage
13 of CAFTA.

14 As Karen acknowledged, our friend Harding and
15 his organization had the last stop with the President
16 and Secretary to trumpet the advantages of free trade.

17 I, honestly, often ask the business people why
18 there was so much discussion when you have 80% of our
19 products going out getting taxed, as 80% coming in are
20 tariff free, and all we're doing is reversing that. I
21 can't see where that had such difficulty attached to it.

22 Fortunately, it got through, and free trade is
23 now another step further. We're very pleased with the
24 role that our Council members played in that particular

1 process.

2 Our Council is very much in belief of free but
3 fair trade. That's a lot of what our job is here to
4 insure -- we're always going to support free trade. The
5 caveat is always that it is also fair trade.

6 Our Council, by the way, also played a very
7 significant role in a couple of other steps that have
8 helped manufacturing. We wrote a white paper on tort
9 reform which the President used almost verbatim to get
10 tort legislation moved which was finally signed in, I
11 think, February. We also did a lot to move the emphasis
12 of energy, and we had an energy bill that was signed.
13 Two significant steps forward to help ease the burdens
14 on manufacturing.

15 While CAFTA is an historic agreement, I think we
16 all agree that free trade also helps democracy, and
17 that's good for creating jobs and a healthy, safe world.

18 So leveling the field is going to be definitely
19 improved with the CAFTA agreement, and we're looking
20 forward to the next steps in that area.

21 I think, from my newness in this position, I've
22 seen that the success in international trade requires a
23 strong and educated workforce. I said at a previous
24 meeting, and I'll just touch on it now, and that is that

1 I was most surprised when I got into this job when I
2 heard jobs were going away to find everywhere I looked
3 there were "help wanted" signs and the jobs were vacant
4 because we didn't have people qualified to do the work.

5 I know within my 57 recommendations to the
6 Manufacturing Council, education is a big part of it,
7 and I've encouraged the Council with some recommended
8 topics to take that as part of their mantra and they
9 have. Education of the workforce is a big part of what
10 the Council is working on.

11 The President has initiatives in that area, No
12 Child Left Behind, which is working, and he has proposed
13 125 million in community health grants and another 125
14 is pledged for this year.

15 There is another program in place to provide
16 loans to help workers with short-term training and the
17 industry-recognized certification, and we're going to
18 touch on that a bit at this meeting.

19 At the end of the day, that's a big important
20 area, and to get a lot of that moved in Washington you
21 need partners. So we hooked up with Emily DeRocco with
22 the Department of Labor. She is the best champion of
23 manufacturing, not being in the Commerce Department,
24 that you could possibly find. She's all about an

1 educated workforce. As such, we brought her to our
2 Council meeting in Dearborn, which was in February,
3 where she addressed the issues of workforce training and
4 brought to the attention of our Council the need to have
5 that as a big part of what we do to drive manufacturing
6 needs forward.

7 She also sits on a subcommittee that's under the
8 Department for Manufacturing and Services. We have an
9 interagency working group made up of other agencies in
10 government. She is a -- holds a subcommittee chair on
11 education under that. We're working on education from
12 many standpoints.

13 This past July, Fred Keller, over to my left
14 over here, and Jim McGregor, who had a family emergency,
15 also, and couldn't be here, we went to Philadelphia to
16 be a part of a workforce Innovation event, and we had
17 3,000 people from education there. We had a great
18 opportunity as a panel to talk as manufacturers what the
19 concerns are of an educated workforce and innovation.

20 My colleague over here, Joe, will tell us about
21 the historical aspects of that and what we're doing and
22 providing some background on that.

23 I also stated that my other primary focus, and
24 it is also part of our Council's, is the importance of

1 research and development, which is, really, innovation.

2 Innovation is so important. I think it is the
3 future. America is going to have difficulty competing
4 in a world where we're the lowest priced commodity. It
5 is going to be hard with the wonderful infrastructure
6 America provides, and so what's going to lead us to
7 success is innovation.

8 I was pleased to see those reports on patent.
9 Some people think lean is important, and that is
10 important, but it isn't the overall answer. There has
11 to be life after lean. My message has always been that
12 if there is not sufficient innovation, then life after
13 lean is, maybe, not conducive.

14 So innovation, research and development is a big
15 part of what makes companies here successful and,
16 certainly, Caterpillar. They've been able to be
17 successful with the added value that I see is needed for
18 success. You can't just lower your cost. You have to
19 add value. Innovation is a big part of it, as well as a
20 great service organizations such as what Caterpillar has
21 here.

22 The President is aware of that. He's proposed
23 to invest 133 billion this year -- that's a record
24 high -- on research and development. So it is an

1 administration priority that we're moving in the right
2 direction. There is a lot more to do.

3 All of these are priorities, and, I think, it is
4 important for the Council that we take a step back and
5 reflect on what we've accomplished. The Manufacturing
6 Report, which was mentioned, is a lot of our marching
7 orders of what this Council is trying to get forward.

8 We have 57 recommendations. We moved 32. So in
9 one year we're well over halfway. We made progress, and
10 we're hoping to get more -- we're hoping to get three
11 more done that are led by Congress by the end of this
12 year.

13 I'll just close by saying that the President has
14 made manufacturing a priority. That's why I'm here and
15 in this job to focus on the needs. I totally very much
16 believe in knowing that I report to the Secretary and,
17 ultimately, the President, but I mostly work on behalf
18 of you. So to hear what Dr. Sampson said, you owe that
19 accountability to try to wear me out. It hasn't
20 happened yet, but I'm anxious to be of service and very
21 pleased to be in this position.

22 I think the President, as to corporate business,
23 I think we have more business in this administration
24 than, maybe, in our country's history, and I think

1 that's a good thing for business and certainly a good
2 thing for manufacturing.

3 With that I'll just put a close to that and give
4 it back to Karen. Thank you very much.

5 KAREN BUCHWALD WRIGHT: Thank you very
6 much.

7 As Al mentioned, we are also joined here today
8 by another significant advocate for manufacturing, and
9 that's the Deputy Assistant Secretary for Manufacturing,
10 Joe Bogosian.

11 Joe is, actually, one of the first people I got
12 to know when I started on this Council. He helped a lot
13 with little clues about what I should say. So I really
14 appreciate that, Joe.

15 We're kind of sorry to hear Joe is leaving the
16 Department of Commerce and going to the FAA, but
17 congratulations on your new appointment. I don't know
18 the specific title, but if you would tell us that. Joe
19 is going to give us a little recap on the history of the
20 Council and what we've been up to.

21 JOE BOGOSIAN: Karen, thank you very much.

22 I guess, first, just by way of introduction, I
23 have served as Deputy Secretary of Department of
24 Commerce for four years now. I came in with the

1 President. I'm very proud of the opportunity I've been
2 given, and from the get-go the President and Secretary
3 have emphasized that we're here for a short time. In
4 that short time, we're going to try to make a
5 difference. We're going to try to leave our country in
6 better shape than we found it and let history be the
7 judge.

8 I think we can look back to the past four years
9 and feel very good about the things that we've done,
10 that we've accomplished and look forward with a lot of
11 hope.

12 I'm moving over to the FAA, by the way, to serve
13 as Assistant Administrator for International Aviation.
14 I still will maintain contacts with the Aerospace
15 industry, narrowing my manufacturing focus down to
16 Aerospace but still maintaining contact with the
17 industry that I know and love.

18 Al asked me, since Friday is my last day, to
19 come here to share with the Council a bit of the
20 history. I took it as where we were and where we're
21 going.

22 So I want to start with where we were. You all
23 might remember the recession began, the economists take
24 that to about June, July, summer of 2000. That was when

1 we had about 656,000 jobs lost in the first six months,
2 from March to September.

3 Of course, then we got hit with
4 September 11th, and above and beyond the human costs,
5 we lost over 1 million jobs in just the first three
6 months after September 11th.

7 Then we had the corporate accounting scandals.
8 Then we had the SARS epidemic. In between there we also
9 had the stock market drop, the single biggest decline in
10 the U.S. Stock Market since the Great Depression.

11 President Bush, as you know, is a man of action.
12 He took action, and he signed the Economic Growth and
13 Tax Relief Act of 2001, the Economic Security and
14 Recovery Bill of 2002, to address the corporate issues
15 the Corporate and Criminal Fraud Accountability Act of
16 2002, the Jobs and Growth Bill of 2003. The Federal
17 Reserve was pitching in with supportive monetary
18 policies and we were off. To maintain that momentum,
19 the President signed the Working Families Tax Relief Act
20 of 2004.

21 At the same time, Secretary Evans took action to
22 support the President and launched the manufacturing
23 initiative in March of 2003.

24 We held outreach events. The Secretary's

1 message was, Get out of Washington, listen to
2 manufacturers, hear what they have to say, hear what
3 advice they may tell us, what advice they give us. What
4 is it that we need to be doing to make the U.S.
5 manufacturing environment more competitive?

6 So we hit a whole number of cities around the
7 country. We hit a whole number of manufacturing
8 sectors, companies large and small. I think something
9 you'll see from this is the Secretary said, you know
10 what, this was very beneficial, this is what we need to
11 be doing. We've got to get out of Washington. We have
12 to listen to the folks who are encountering these
13 challenges on a day in and day out basis.

14 That same model then resulted in, well, you know
15 what, it worked so well for us to get out of Washington,
16 we need to institutionalize this. That is truly where
17 the concept of the Manufacturing Council came from.
18 That if we're going to keep this going, we will keep
19 going out, we will keep doing outreach events, but we
20 want an institutional council that keeps giving us the
21 outsider's perspective, the manufacturer's perspective
22 from outside the bubble that is Washington D.C.

23 With all that, January 2004, Secretary Evans
24 released the Manufacturing in America report, and that

1 is available to you at www.manufacturing.gov. You can
2 download it from there. Also, that Web site is
3 something that we use to keep everybody up to date on
4 the achievements of the manufacturing initiative, the
5 papers that the Manufacturing Council prepares and
6 provides to the Secretary in their advisory capacity.
7 They're all posted there.

8 With all that action, where are we today?

9 The U.S. economy today is -- GDP is up 3.3% in
10 the second quarter of this year; 3.6% growth year over
11 here. Compare that to the EU at 1.3% growth and Japan
12 2.1% growth. We're leading the world in economic
13 growth.

14 The flip side of that, the negative side of that
15 is that our export markets are still depressed. The
16 folks buying our stuff in Europe and Japan need to grow
17 their economies to increase demand for our goods.

18 We've had 27 consecutive months of job gains.
19 Over 4 million new jobs since May of 2003. Just in the
20 last two months, 411,000 new jobs.

21 Unemployment down 4.9%. That is lower than the
22 average rate of the '70s, '80s and '90s.

23 Home ownership rates, it is the highest level
24 ever, and I think what you can take away from this

1 perspective, people are voting from their pocket books.
2 People are confident in this economy, that this economy
3 is going to continue to grow, and they're putting their
4 money down and buying homes and at record rates.

5 Industrial production is up 3% from a year ago.
6 Manufacturing productivity up 3.6% at an annual rate.
7 Real exports of goods up almost 16% at an annual rate in
8 the second quarter of '05.

9 As Assistant Secretary Frink mentioned, the PMI,
10 the Purchasing Managers Index, has been above 15% for
11 over 27 straight months -- for 27 straight months.

12 What does all of that mean? It means the U.S.
13 is the single largest producer and exporter of
14 manufactured goods in the world. I think we also have
15 to credit Caterpillar for their contributions to that
16 fact.

17 Standing alone, the U.S. manufacturing would be
18 the world's sixth largest economy.

19 What does all this wonderful, good, positive
20 news mean to the President and the administration? No
21 complacency. Keep it going. Keep at it.

22 So within the Manufacturing in America report,
23 we've had 57 policy recommendations that are all derived
24 from you, from you the manufacturers. You can break

1 that down into those six categories.

2 The first one you told us about healthcare
3 costs, litigation costs, energy costs and regulatory
4 costs.

5 Studies have shown that those costs are,
6 basically, equivalent to a 22% tax on U.S.
7 manufacturing. We have to take action. That was our
8 message. We have to take action on addressing these
9 costs.

10 As Assistant Secretary Frink mentioned, the
11 message on trade was we can compete with anybody in the
12 world, so long as everybody is competing by the same
13 rules, free and fair trade.

14 The two issues that are vital to the future of
15 U.S. manufacturing strength that we're working hard on
16 is education and workforce, innovation and R&D.

17 The message on tax reform. Make the tax cuts
18 permanent and align tax policy with competitiveness
19 goals. That means things like the AMT and the R&D tax
20 credit.

21 The structural changes. If you want something
22 to survive in Washington, if you want an amendment to
23 survive in Washington, you have to embed it in the
24 institution of Washington D.C. That's where the

1 Assistant Secretary comes in, that's where this Council
2 comes in and some of the other things I'll mention.

3 Again, of the 57 total recommendations, 32 have
4 been implemented. Some of those are for the first time
5 ever manufacturing has an advocate in Washington D.C.
6 Never existed before. It exists now in this
7 administration. Al is serving in that capacity.

8 For the first time ever we have
9 institutionalized your voice, the manufacturer's voice
10 in Washington to tell us on a quarterly basis. We want
11 to hear from you.

12 We have expanded IPR, Intellectual Property
13 Rights enforcement. For the first time ever we posted
14 IPR officers overseas. For the first time ever we have
15 created a global coordinator for IPR enforcement to help
16 address a very critical issue of when our goods get
17 stolen overseas.

18 We created an office of Investigations and
19 Compliance. Basically, that means that when we sign our
20 trade agreements, these guys make sure that our trade
21 partners are abiding by the terms that they signed up
22 to.

23 We are working to reduce regulatory costs,
24 working with the Office of Management and Budgets,

1 basically saying there are a number of ways you can
2 achieve any single objective. What is the most cost
3 effective way to get to that objective?

4 Unfair Trade Practices Task Force. A gentleman
5 when we held the roundtable in Milwaukee came up and
6 said, You know what, I'm struggling day in and day out.
7 I have a small family-owned manufacturing company, but I
8 know I'm getting killed by dumping and unfair trade
9 practices. What can you do that doesn't entail me
10 spending all my money to hire lawyers and bring the
11 case?

12 For the first time we have a Trade Remedy
13 Compliance staff overseas as our forward eyes and ears,
14 identify the unfair trade practice and address it before
15 our guys -- before our manufacturers have to spend their
16 own time and their own money to bring them to our
17 attention.

18 The President signed an Energy Bill into law,
19 and he signed the Class Action Fairness Act of 2005.
20 That's a critical building block in overall tort reform.

21 We established an interagency working group for
22 manufacturing R&D. That's being led by the National
23 Science and Technology Council. Their first three
24 priorities are nanomanufacturing, intelligent and

1 integrated manufacturing systems and manufacturing for
2 the hydrogen commodity.

3 If you can imagine, these 14 agencies which all
4 receive and spend R&D dollars for the first time are
5 coordinating their R&D expenditures. They're sharing
6 ideas and saying, all right, how do we get the most
7 benefit from R&D expenditures within the U.S.
8 government? That's, again, the first ever.

9 We established an interagency work group on
10 manufacturing, realizing that the Commerce Department in
11 and of itself cannot solve all the manufacturing woes.
12 We have to partner up with all of our other agency
13 friends and colleagues and share information and
14 collaborate with each other to address the issues that
15 you are bringing forward to us. That's where Assistant
16 Secretary Frink mentioned that Assistant Secretary Emily
17 DeRocco has been of tremendous assistance from the
18 Department of Labor and others from all over Washington
19 come forward and meet with Assistant Secretary Frink in
20 those meetings.

21 We have five initial focus areas for that
22 interagency group: Trade, healthcare, workforce
23 education, structural cost issues and then innovation
24 and technology.

1 Now, to get to the task at hand, the
2 Manufacturing Council. As I mentioned, the
3 Manufacturing Council, what we look to you for is you
4 our eyes and ears. You are our ambassadors. You are 15
5 company representatives from across the U.S., from
6 across different sectors, from large, medium and small
7 companies. We need you to keep telling us what is it
8 that we need to be doing. Where do we need to be
9 setting our priorities?

10 As the Secretary says, the Council has to keep
11 our feet to the fire because we will never let up. We
12 will never be complacent, but we also want outside folks
13 to play a check, a role to keep honest and make sure
14 that we're moving forward and helping manufacturing.

15 Something that Dr. Sampson mentioned. Beyond
16 the 57, what new recommendations would you put forward
17 to us? What next phases of the current 57 would you
18 recommend to us?

19 For example, something that we've identified and
20 we've been working on already that, again, came out of
21 the roundtable meetings was the U.S. government collects
22 data and makes data available to U.S. manufacturers in
23 so many different ways that it takes a Ph.D. to figure
24 out where all the data is sometimes.

1 How can we be delivering that more efficiently,
2 more effectively so you can use it more effectively?

3 What data sets do we collect that you don't need
4 anymore? What data sets do we not collect that you do
5 need with evolving industries?

6 So that's one thing that we've thought of in
7 terms of beyond 57. There is a number of others. That
8 we're working on. But we look to you, like the Deputy
9 Secretary said, to keep giving us our marching orders,
10 to keep giving us our direction.

11 With that I'll close and let the meeting go
12 forward. Thank you so much, Karen, for your
13 chairmanship today.

14 KAREN BUCHWALD WRIGHT: Do any of the
15 Council members have any questions for Joe about what he
16 was just talking about?

17 Now we'll start into the really important stuff,
18 the presentations by our Subcommittee chairs. First,
19 we're going to start with Fred Keller who is the
20 Chairman of the Subcommittee on U.S. workforce.

21 FRED KELLER: Thank you very much, Karen.
22 I'm delighted to have the Deputy Secretary and Assistant
23 Secretary here. Thank you very much for having an
24 opportunity to present our report.

1 We have a situation here where we have, as we
2 scan across all this good news that's out there, there
3 are occasionally pockets of things we need to work on.
4 This is an issue that I can tell you is on the hearts
5 and minds of a lot of folks in the automotive sector.

6 Manufacturing firms have been subject in the
7 past to bankruptcies and industries within the
8 manufacturing sector, steel being an example, where as
9 they reach maturity, the diminishing size of the
10 industry, perhaps, is driving some shrinking to occur.

11 We mentioned this at our last meeting, and I was
12 asked to put together a paper on what this looks like.

13 This is a view from, I would say, a larger
14 perspective than a narrow perspective in terms of within
15 the auto supply industry as an example of what could be
16 happening in, maybe, a unique way in the auto supply
17 sector.

18 The fact is that at this point in time there are
19 about \$20 billion worth of sales in the auto sector who
20 are companies that are in the state of bankruptcy.
21 There is kind of a real sense of danger among OEMs and
22 suppliers alike.

23 You have on our desks, at your places, another
24 little handout. If you look at the back page of that,

1 this is realtime, it happened to be in our local press
2 Sunday, September 25th, this past Sunday, talking
3 about another large supplier, Delphi, who is on the
4 brink of financial crisis and, perhaps, will be filing
5 Chapter 11. A lots of reasons for these to occur,
6 including excessive licensing costs.

7 There is an interesting situation within the
8 supply sector where we have suppliers that are often
9 competitors as well as customers, and it is interesting
10 what they call co-opetition. This can result in a
11 rather new phenomenon of good competitors being damaged
12 by bad customers who are actually their suppliers and
13 customers at the same time. It is a new kind of
14 phenomenon to think about in terms of -- usually when
15 you think of a bankrupt organization going out, maybe it
16 takes out his own capability, but in this case it could
17 take out collateral folks who were actually quite good
18 operators, just happened to have the wrong customer.

19 The pressure that this puts on the organizations
20 and the potential ripple effect, I think, is the
21 concern. There is an observation that at some point in
22 time in industries that are facing a lot of bankruptcy
23 could -- in fact the only way, there is an economic
24 principle that says at some point in time there is a

1 critical mass of bankruptcies beyond which the only way
2 to survive is to enter bankruptcy as everybody else
3 enters bankruptcy. We may be seeing the tip of that in
4 the airline industry.

5 It's something, I think, we are concerned about.
6 The pressures of this are, also, perhaps affecting the
7 intellectual property rights and reduction of R&D and
8 innovation, and that's another concern.

9 There is no doubt that there needs to be some
10 rationalization in the industry. There is just plain
11 too much capacity at this point in time both through the
12 offshoring that's occurring in the globalization efforts
13 but also through improvements in productivity.

14 Not to be too pessimistic, we do feel that this
15 is something that is not necessarily -- I don't want to
16 be a sky-is-falling approach to this, but it is, in
17 fact, something that people are very concerned about.

18 I can tell you that it is on the minds of
19 small-, medium-sized manufacturers much more than it is
20 on the larger, although the larger ones may be, in fact,
21 the ones that are triggering a lot of this. So it is a
22 real concern. It is realtime. It's happening right
23 now. It is, in fact, in potentially the auto industry
24 in terms of even supply.

1 What do we recommend? I've got four ideas. A
2 little dangerous for the private sector to be able to
3 recommend things to the government, but we're suggesting
4 that maybe there is a role for DOC to provide education
5 for suppliers and customers on good contract law and
6 trade compliance. This is a supply chain that's in
7 stress right now, and there are, maybe, significant
8 misunderstandings occurring in the supply contracts
9 between what is required or could be required in the
10 supply chain.

11 Could the bankruptcy law be modified to allow
12 unsecured trade creditors to be more protected in the
13 event of Chapter 11 filings?

14 This is an area where the suppliers -- the next
15 one we're talking about, too, is often our costs for
16 providing all the recordkeeping and so on by attorneys
17 and consultants and accountants was really restricting a
18 lot of the value of that particular company as they are
19 trying to comply with all the bankruptcy requirements.
20 It leaves less for the suppliers in the long run.

21 Finally, is there any way in a broad sense that
22 DOC could help identify the drivers that are causing
23 this kind of action and, perhaps, mitigate some of the
24 probability of this all occurring.

1 So that's the gist of our report, and we welcome
2 to take any questions or comments.

3 KAREN BUCHWALD WRIGHT: If anyone in the
4 audience has any questions, you are more than welcome to
5 speak up.

6 FRED KELLER: I have a couple other things
7 I would like to mention, if I could, Madam Chairman?

8 KAREN BUCHWALD WRIGHT: Yeah.

9 FRED KELLER: The second one I would like
10 to do is point to, again, the handout you have in front
11 of you. It is a summary of the HR250 bill that's been
12 passed by the House favoring manufacturing, actually
13 sponsored by Vern Ehlers who comes from West Michigan.
14 You can see there are several items that are really
15 going to help manufacturing.

16 We need support in the Senate for this to be
17 passed at this point in time, but it does a good job of
18 supporting an interagency committee on manufacturing
19 R&D, to coordinate federal manufacturing R&D efforts.

20 It establishes a three-year lab of manufacturing
21 R&D pilot program. It reauthorizes the Manufacturing
22 Extension Program at \$110 million, and then continues to
23 increase that up to \$120 million for fiscal year 2008.
24 So it provides a continuity of the Manufacturing

1 Extension Program as well.

2 So it is a strong bill. I think it helps
3 manufacturing, and we're proud of our Congressman for
4 launching that from West Michigan.

5 A little bit more to the skill standards, to the
6 workforce side of our Subcommittee. You also have in
7 your packet a piece of good news about the very thing
8 that Al was talking about. He mentioned needing
9 qualified workers.

10 We have an industry-recognized Skill Standards
11 Council, Manufacturing Skill Standards Council, MSSC,
12 and they're launching a whole new accreditation process.
13 It is a really milestone in our country's workforce
14 development that is applicable to all sectors of
15 manufacturing.

16 It really is all about providing the kinds of
17 standard qualifications that people can be learning and
18 coordinating those standards with the educational
19 institution so that a worker can have a portable
20 certification of skills that they can take with them.
21 And it also helps the manufacturers understand the kinds
22 of skills that their workers are coming to them with.

23 It is really a very significant milestone as we
24 develop and provide this kind of knowledge that we all

1 need in manufacturing for the future.

2 So I invite anybody who would like to come, it
3 happens to also be in our hometown of Grand Rapids that
4 we are launching this.

5 It is a blue ribbon panel of folks. You can see
6 on the attached sheet headed by the Harley-Davidson
7 president and COO, Jim McCaslin. Ford Motor Company is
8 there. NCAM, National Council for Advanced
9 Manufacturing, National Association of Manufacturers are
10 all at the table. And it is, really, a very significant
11 milestone for us as we proceed to having an
12 understanding of the kind of knowledged workers we need
13 in the future.

14 Finally, I would like to just quickly mention
15 that on December 1st we have Emily DeRocco, Assistant
16 Secretary for Labor, coming to Grand Rapids, also, to
17 learn about -- have a conversation about how do we more
18 effectively employ the workforce investment dollars that
19 are being spent in the training and retraining.

20 I would say in a general, very general gist of
21 the idea is that our current system is kind of a
22 train-them-up model to draw from. It is a push system
23 of education. We're suggesting that maybe the best way
24 to do that is to have a hold system where as employers

1 need these skills, the people that are needed are
2 trained on the job and are trained with skills as they
3 are working as opposed to trying to do training and get
4 education from that.

5 That's the general gist of what we're going to
6 be exploring. We would love to have anybody else on the
7 Council be there, maybe even Al is going to be there to
8 have this conversation around this area of education.

9 KAREN BUCHWALD WRIGHT: Would you work with
10 local (inaudible)....

11 FRED KELLER: Exactly.

12 KAREN BUCHWALD WRIGHT: And also would have
13 maybe an inside-the-plant training facility so it is
14 very job specific?

15 FRED KELLER: Right. It is -- if you think
16 in terms of the kind of skill set that the MSSC
17 certification process is going through, as we align
18 those certified skills with the ability to deliver those
19 skills, that skill development, in a situation where you
20 have a job you're working on building your skills as
21 opposed to not having a job and wondering if you're ever
22 going to have a job, what does that do --

23 KAREN BUCHWALD WRIGHT: The employer might
24 not want it.

1 FRED KELLER: Exactly. Employ those on a
2 hold system through educating our folks in their jobs in
3 their own manufacturing environment.

4 KAREN BUCHWALD WRIGHT: (Inaudible.)

5 FRED KELLER: Wouldn't it be good to have
6 the alignment of our federal dollars.

7 KAREN BUCHWALD WRIGHT: Yes.

8 FRED KELLER: They're very excited about
9 it. They're actually putting a team of maybe 15 people.
10 It should be something that we will be able to report on
11 in our next meeting.

12 DAVID SAMPSON: I was going to ask for
13 background on the first presentation.

14 FRED KELLER: Yes.

15 DAVID SAMPSON: Bankruptcy reform law was
16 signed earlier this year. It goes into effect
17 October 1st. Does that address any of these issues
18 you raise, or are you suggesting that there are other
19 issues beyond what was passed?

20 FRED KELLER: That's a really good
21 question. To the best of our knowledge, the reforms
22 that are happening are going to require more and better
23 recordkeeping which may have an important aspect in
24 terms of learning more accurately about what's going to

1 happen.

2 What we have a hint from -- this is just a hint,
3 not scientific research -- but it may actually have an
4 inverse effect in terms of small-, medium-sized folks
5 because they will be -- those who are entering Chapter
6 11 are small-, medium-size and will probably not exit as
7 a result of the tougher bill that's coming out.

8 The suggestion is that we need some more work on
9 that.

10 ALBERT FRINK: I think the bill that you
11 are referring to is one that is directed mostly at the
12 individual for personal bankruptcies, for people who
13 will take personal bankruptcy as an option, but it is
14 not applied to the corporate level.

15 I think what the concern is on the Manufacturing
16 Council is the corporate responsibility in terms of so
17 many companies taking bankruptcy as a strategy to avoid
18 payment.

19 We were raised in a country where if you filed
20 for bankruptcy, it was an embarrassment and today it is
21 considered a strategy. It's perhaps so common that
22 we're immune to it.

23 It should have all the devastating ramifications
24 that it originally intended and made people try to avoid

1 it. I think the legislation that was passed was
2 directed mostly on private individuals using bankruptcy
3 as a manner in which to avoid payment. Some are, but
4 many take it as a strategy.

5 On a corporate level, the devastation by so many
6 well-intended vendors who supply products only to have
7 the company they're supplying files for bankruptcy and
8 they're way down the food chain and many go out of
9 business because they were supplying product in good
10 faith and the corporate strategy to stay in business
11 because they didn't run the businesses as well as they
12 should have, the burden of that is put on small
13 individuals who were good pay suppliers.

14 HARDING STOWE: Our industry is going
15 through a lot of that.

16 It seems like we're somewhat willing to make a
17 new investment in the industry, and, unfortunately, a
18 lot of times it takes bankruptcy to make that investment
19 come about to restructure the business, get rid of some
20 of the excessive costs that were a part of it. I've
21 been on the supplier side and it is very unpleasant, but
22 for a lot of these companies to have future a
23 restructure needs to take place.

24 Has there been any new investment in the supply

1 chain you are talking about?

2 FRED KELLER: Of course there is, but I
3 don't know numbers on that. Anecdotally it's down.

4 HARDING STOWE: We're willing to step up
5 and invest in our industry. People did. They see that
6 there is a possibility.

7 FRED KELLER: There is a -- half of me
8 wants to say that this is just something that we're
9 going through another cycle. Another side says this is
10 unique in that the interdependency of this particular
11 supply chain is pretty -- may be unique.

12 The ability to be able to continuously supply is
13 a constant concern on behalf of OEMs, and it is a
14 concern that good operators -- as Al said, good
15 operators may all of a sudden find themselves in a
16 position where they have to file because they've been
17 hit so badly by other factors. That ripple effect where
18 everybody is on the edge at this point in time.

19 KAREN BUCHWALD WRIGHT: It sounds like you
20 are saying that's the case in the industry now?

21 FRED KELLER: I don't want to be Chicken
22 Little. I don't -- it's going on in the auto industry
23 and it's going to continue.

24 The turmoil that it could be going through is at

1 the point --

2 KAREN BUCHWALD WRIGHT: Businesses will go
3 offshore and (inaudible)....

4 FRED KELLER: That's an additional threat
5 to follow. If we, in fact, lose this, we lose the
6 capabilities here, do they ever come back? What's the
7 impact?

8 KAREN BUCHWALD WRIGHT: Is there anything
9 else?

10 AUDIENCE: I was just going to say, you
11 know, since being a part of the automotive industry
12 there is challenges because if you take a look at the
13 structure of the automotive business, it was set up
14 during the '60s and '70s based on a business model that
15 supported unions, healthcare and pensions and things of
16 that nature.

17 So, then, as you become more global,
18 strategically what has happened is the paradigm is
19 shifting and it has allowed lower cost products to come
20 in and be more competitive. That has now forged a
21 strategy that is making everybody relook at the model
22 that you have today.

23 But it is difficult because you're carrying
24 legacy costs, legacy costs that are negotiated in good

1 faith with your UAW partners and now you're trying to
2 change those paradigms. Even though you want to change
3 them quickly, some people can't change them quickly and
4 they didn't see what they needed to see out there in the
5 horizon that has forced some into bankruptcy. There are
6 also some others that I know what Fred is alluding to
7 that just didn't manage business properly. That's an
8 altogether different story.

9 But I think that as we go forth there is a
10 balance here of how -- strategically how you realign the
11 business so that the business stays here in the U.S.
12 versus going offshore. That's one of the challenges
13 that we as OEMs face.

14 CHARLES PIZZI: During this discussion --
15 well, I'll wait.

16 KAREN BUCHWALD WRIGHT: Should we have a
17 general discussion, then? Do some of the people out in
18 the audience have some comments to make about this?

19 DAVID SAMPSON: I'm hesitant to comment on
20 this subject, but I think we do have to be careful about
21 what help we ask from government.

22 We have some difficult structural changes to go
23 through in our economy to position ourselves to be
24 globally competitive, and I think we need to move

1 through those things. To protect everyone who hits
2 bankruptcy with the federal government, I think, has a
3 lot of inherent risk.

4 We need to push our economy to be competitive in
5 the global marketplace because all businesses benefit
6 from that. I think we have a manufacturing base that
7 can compete. We need to be a little careful about what
8 we ask for here.

9 KAREN BUCHWALD WRIGHT: Anyone else have
10 any comments, particularly on the bankruptcy issue?

11 If we're done talking about it -- I'll give you
12 two more seconds, if anyone else has anything to say
13 about the bankruptcy.

14 All right. Then I would like to know if someone
15 would make a motion to enter this into our record and
16 then we'll submit it to the Department of Commerce for
17 Al to take to the Secretary.

18 Anyone want to make a motion to that effect?

19 FRED KELLER: I will.

20 CHAIRMAN WAINWRIGHT: Do I hear a second?

21 EDWARD VOBORIL: Second.

22 KAREN BUCHWALD WRIGHT: All in favor, say
23 aye.

24 (All responded with aye.)

1 KAREN BUCHWALD WRIGHT: I think we'll move
2 on, then, to our next report, and that would be Mike
3 Nowak, and he's going to give us a report on the
4 Subcommittee on U.S. Competitiveness. Mike?

5 MICHAEL NOWAK: Thank you, Karen. Our
6 report is on Corporate Tax Burden.

7 Before I start that, I would like to, however,
8 second what was said before about the tax cuts. One of
9 the things that industry likes the least is the
10 uncertainty of not knowing what's going on. Make the
11 tax cuts permanent, which I'm not going to address
12 today, we're going to address in more details. It is
13 certainly a high priority in order to get some
14 permanence and to help us to know with certainty what's
15 going to happen in the Tax Code and if there is
16 uncertainty that usually means it has more risk and less
17 investment. I think that would help Americans to invest
18 more.

19 As far as Corporate Tax Burden goes, what we've
20 looked at are places where we feel that manufacturers
21 are facing challenges and the tax structure does not
22 necessarily help and sometimes hinders the performance
23 of manufacturers in being competitive with the rest of
24 the world.

1 We're going to talk about six areas today,
2 starting with the Alternative Minimum Tax, both the
3 Corporate Alternative Minimum Tax and the Alternative
4 Minimum Tax as it relates to individuals because many
5 partnerships and S Corps are taxed on an individual tax
6 basis on the AMTs.

7 AMTs are Alternative Minimum Tax not only have
8 some problems with it, but many times it impacts U.S.
9 manufacturers who are having problems and are in a
10 downturn, in a cyclical industry in a downturn. It
11 actually punishes them at that time when they're least
12 able to compensate for that, and then in good times it
13 does not have as big of an effect.

14 In some specific areas, the AMT has great
15 effects and could certainly help to encourage industry,
16 and those would be in three areas:

17 One in depreciation, in not letting companies
18 take full credit for depreciation deductions.

19 Secondly, research and development credits.
20 We've heard a lot today about our research and
21 development, and you're talking about moving the country
22 forward and help build the manufacturing base. We
23 aren't seeing R&D credits yet. When we get to the AMT,
24 many companies can lose it and in some cases can

1 actually pay more taxes because they take the R&D
2 credit.

3 The third area pertaining to really smaller
4 companies who get their AMT taxed as an individual, in
5 that case many of the state taxes are not excluded from
6 the AMT tax calculations and as a result companies
7 actually end up paying federal tax on money that's being
8 paid out to states for the state tax burden.

9 All of those burden U.S. companies and are not
10 applicable to foreign companies, so it ends up being a
11 tax on our ability to compete against foreign companies.

12 There are also areas -- the second item is there
13 are also areas of the Tax Code where companies are
14 limited to what they can take credit for as far as
15 losses and deductions. In many cases, capital loss,
16 charitable contributions can only be carried back five
17 years. So people actually having deductions aren't even
18 able to take those deductions, and we feel this is
19 unfair and, again, puts us at a disadvantage versus
20 other people.

21 Thirdly, the research and development credit,
22 which is a key to helping companies invest money for the
23 future and to make our manufacturing base more
24 competitive. This credit has never really been made

1 permanent. It has been reenacted 11 times. It actually
2 lapsed for a period of time. Again, people are spending
3 millions of dollars on R&D. It would be nice to know
4 that those millions of dollars have some permanency and
5 encourage people to spend more because they know what
6 will be happening in the future.

7 The fourth area is the Active Financing
8 Exemption. Many of our large manufacturers will finance
9 their sales overseas; however, profits on that financing
10 are taxed under unusual methods that our competitors in
11 foreign countries are not taxed under, resulting in us
12 actually paying tax for profits being brought back to
13 the United States. Again, this hurts our ability to
14 sell overseas if we can't finance products for our
15 customers.

16 Number five, State Tax Credits. Recently there
17 was a U.S. circuit court case that held that many state
18 tax credits are unconstitutional. Congress is acting on
19 this to try to clarify that the states do have rights to
20 give tax credits, but we need to have some consistency
21 and we need Congress to speak out on the issues and give
22 us some certainty with legislation.

23 Lastly, on personal property taxes. Many states
24 still impose personal property taxes on machinery and

1 equipment. A number of states, I'm glad to say, don't,
2 and that encourages manufacturing and investment.

3 However, by taxing machinery and equipment
4 that's been invested to create jobs and create more
5 products, we send a bad message to manufacturers as to
6 what we want them to do.

7 In our environment, we need to build jobs. We
8 need to build our environment and our manufacturing
9 sector and keep us competitive in the world today. We
10 believe these tax changes will certainly go a long way
11 to make that happen.

12 KAREN BUCHWALD WRIGHT: Thank you. Anybody
13 around the Council have a comment?

14 EDWARD VOBORIL: Yeah, Karen.

15 The industry I'm part of, which is the medical
16 life industry, I think has one of the highest percentage
17 spend rates in R&D, and that innovation has been a
18 source of a lot of jobs because the industry, in
19 addition to the bigger companies, but many small- and
20 medium-sized firms who are based on innovation.

21 We have fairly long cycle times, three to five
22 years in many cases. You have to have a long-term
23 focus.

24 Dealing with an uncertainty about an important

1 tax issue like AMT tax credit, I think, is something
2 that we said a number of times already this morning,
3 that innovation is the key to the future success of the
4 manufacturing sector.

5 So making this R&D tax credit permanent is, I
6 think, to use the slang term, it is a no-brainer, and it
7 is something that's absolutely essential in terms of
8 helping to secure innovations for our future of
9 manufacturing.

10 WAYNE MURDY: Just going back, this is a
11 very insidious situation we find ourselves in. You look
12 at the world that we live in right now and the
13 credibility that the American business has taken and the
14 emphasis on transparency, and yet we have one of the
15 most difficult tax regimes to deal with when we talk
16 about AMT. People talk about having a second set of
17 books for income tax purposes; you have to have a third
18 for AMT.

19 It does penalize the American manufacturing,
20 American business, not just from the standpoint of
21 specific tax burdens but the cost, the administrative
22 costs that we incur as a nation is a huge, huge tax on
23 us because of the complexity of the system.

24 I know the administration is looking at

1 simplification here, and when one thinks about it and
2 looks at some of our competitors and some of the real
3 success stories, we're looking here at some of the rates
4 in Ireland as a classic example of a country that if you
5 go back 15 years ago was really in deep trouble and has
6 become one of the real stars of the manufacturing
7 section and the country has become extremely competitive
8 because they've really simplified their system. A very
9 straight forward tax system that people understand and
10 it works.

11 I think the U.S. has made this area so complex
12 that administrative costs of just compliance is -- we
13 have a system that nobody believes in, basically.

14 It goes -- the specific recommendations, I
15 think, Michael, are very good here and draw attention,
16 but I think there is an overriding issue here, and I
17 think that to the extent Commerce Department will
18 continue to push the administration towards this area
19 would be a huge benefit to American business for many
20 decades.

21 KAREN BUCHWALD WRIGHT: One of the things
22 that we've talked about a little bit is the (inaudible),
23 which, in effect, is another huge tax because of the
24 compliance with that is far more expensive than anybody

1 anticipated, at least people that were making those
2 rules and regulations. That's something that people
3 probably want to talk about at our next meeting because
4 it is a pretty big issue. It impacts both public and
5 private businesses because of the cost of just
6 administering that and making your way through it is
7 huge.

8 EDWARD VOBORIL: You hit one of my hot
9 buttons. I didn't know when you were going to get to
10 things like this.

11 I'm running a company, roughly 200 million in
12 revenue, and last year we spent about a \$1.5 million for
13 certification, onboard with another -- we spent \$3.250
14 million.

15 The burden on the smaller and medium-size
16 company, many are manufacturing, I think, are grossly
17 underestimated. It is not just the cost for auditors,
18 consultants, lawyers who help you get through the
19 thicket. It is the time. These are usually -- we have
20 to take these things very seriously.

21 It is the senior executives, the top management,
22 especially in the smaller and medium-size companies that
23 gets taken up with these matters that isn't then
24 available as time for looking at projects, enhancement

1 of performance of the organization.

2 KAREN BUCHWALD WRIGHT: Innovation.

3 EDWARD VOBORIL: It is not valued as to
4 time.

5 We understand the need to preserve the integrity
6 of the capital market of the United States. There is no
7 question about that. But the cost of enforcement under
8 these new regulatory procedures, I think, is sorely
9 underestimated and not just financially but also in the
10 time burden it places on management affecting these
11 smaller and medium-sized companies.

12 KAREN BUCHWALD WRIGHT: It is also a
13 philosophical attitude which says that -- essentially
14 that no business can be trusted, and I don't think
15 that's the way that we should be looking at this when it
16 is so important. We'll really address that at the next
17 meeting and get into the heart of that.

18 Anybody else have comment regarding the
19 recommendations of the Subcommittee? Anyone in the
20 audience at this point?

21 AUDIENCE: I was wondering if the committee
22 looked at the current -- the potential role of tax
23 credits for human resources, particularly those provided
24 to innovation and technology?

1 There was a comment earlier by one of the
2 members of the committee about looking towards a pull
3 system, essentially the need for workforce development
4 rather than pushing it out, pulling it. I was wondering
5 about the potential benefit of looking at tax credits to
6 provide incentive.

7 KAREN BUCHWALD WRIGHT: Do you know? He's
8 asking if there are tax credits associated with
9 developing workers, right?

10 It sounds like, maybe, there is some tax credit
11 associated with what Emily is doing. There is some
12 money associated with community colleges and things like
13 that.

14 FRED KELLER: There is -- I know of no tax
15 credits. There is some deductibility to that but no tax
16 credit that I know of at this point.

17 KAREN BUCHWALD WRIGHT: It probably
18 means --

19 DAVID SAMPSON: There is some on the state
20 and local level more than the federal level for
21 workforce development.

22 KAREN BUCHWALD WRIGHT: Probably state and
23 local is better anyway when we're talking about a local
24 business. You don't want to necessarily have to go to

1 the federal government to get credit.

2 FRED KELLER: I think you are talking about
3 workforce development funds and they're coming through
4 the state. Yes, we have that as well, not direct tax
5 credits.

6 KAREN BUCHWALD WRIGHT: Any other questions
7 or comments?

8 Shall we have a motion, then, to enter the
9 subcommittee's recommendations into the record?

10 ALBERT FRINK: I was going to state do you
11 want to have an addition to that letter, a modification
12 to speak to the points you were talking about?

13 WAYNE MURDY: I think if we had something
14 like that, I think it is very consistent with what the
15 administration is trying to do.

16 KAREN BUCHWALD WRIGHT: Tax implications.

17 WAYNE MURDY: Yes. Just endorsing the move
18 towards tax simplification and providing these
19 recommendations.

20 KAREN BUCHWALD WRIGHT: I think that's a
21 great idea.

22 MICHAEL NOWAK: We'll take it and resubmit
23 it with that.

24 WAYNE MURDY: I'll move.

1 MICHAEL NOWAK: Second.

2 KAREN BUCHWALD WRIGHT: All those in favor?

3 (All responded with aye.)

4 KAREN BUCHWALD WRIGHT: The next one that
5 we're going to talk about will be advocacy -- our
6 Subcommittee and Advocacy and International Trade, and
7 this is going to be presented by the Subcommittee
8 Chairman Marcos Tambarkeras.

9 MARKOS TAMBARKERAS: Let me also
10 acknowledge my colleagues on the Subcommittee.

11 The subject of our presentation this morning is
12 the letter we submitted to the Secretary of Commerce,
13 and it is related to the release of tungsten raw
14 materials into the market for purposes of bringing the
15 price of tungsten into more reasonable levels.

16 What I'm going to do here is I'm going to try to
17 put this in the context of the charter of the
18 Subcommittee and reason behind the proposal.

19 First of all, the topic is consistent with the
20 Subcommittee's charter, which is to promote open markets
21 and create competition and also level the playing field.
22 It does relate to the run-up the tungsten prices and
23 China's role in that.

24 Let me also state that we believe it has a

1 broader issue in terms of how we manage raw materials as
2 we look ahead, and the subject of raw materials becomes
3 a much more important global issue, not just for
4 manufacturers but for the country and the rest of the
5 world. This is a manifestation of this issue, which, I
6 think, is going to evolve a lot more rapidly.

7 Let me also say that we believe that China's
8 demand for raw materials in order to support its very
9 fast growing economy is very understandable. They need
10 to be able to support the demand that they are
11 experiencing.

12 It is also important to note that China's
13 consumption of raw materials now accounts for 20% of the
14 demand, global demand, for most of the raw materials,
15 which is, of course, leading to the rise in raw
16 materials prices that we have seen around the world, as
17 we know.

18 The issue at the same time, though, is that the
19 official policy seems to be opening and controlling and
20 restricting supplies for some of the raw materials.

21 I have a quote here from the official
22 publication of China comes out of the Xinhua News
23 Agency, which, of course, is the government
24 organization, and says, "... tungsten, tin and antimony

1 mines and at the same time set export quotas for the
2 three metals quoted in the new regulation worked out
3 jointly by seven ministry level government departments.
4 China is the leading producer and exporter of tungsten,
5 tin and antimony in the world. Economy creates 90% of
6 the world's tungsten and antimony production and nearly
7 40% of the total tin production. The latest policy
8 change will inevitably lead to a reduction in the supply
9 in the international market, hence pushing up prices."

10 This is an official document, and the issue here
11 is that there is a mix of official and unofficial
12 actions that affect raw materials which leads to rapid
13 escalation problems in the world market which leads to
14 increasing prices and, subsequently, an issue of
15 competitiveness.

16 The letter, if you go through it, recognizes the
17 importance of tungsten to the business of manufacturing
18 because everything that is machined, whether it is for
19 the production of auto car or submarine or a bulldozer
20 or motorcycle, oil driller, anything that requires
21 machining requires tungsten. In some cases, 70 to 80%
22 of the content of the tooling that is used is tungsten.

23 If you look at the fact that the price of
24 tungsten has more than tripled in the last six or seven

1 months from about \$60, \$70 to \$300, this is even a
2 higher escalation of price than that of oil and some of
3 the other well known materials like steel.

4 The implication of that is, of course, about
5 2,000, 2,500 large, medium and small manufacturers in
6 the U.S. that are affected directly by these.

7 Essentially, what we are proposing is a
8 two-prong approach. There is a short-term potential fix
9 that's within our control, if you will.

10 The DLA, the Department of Logistics Agency,
11 releases tungsten into the market every year, and we're
12 proposing that instead of 5 million that they usually
13 release be raised up to 20 million to bring some order
14 into the markets at least in the short term. This is
15 something that we have within our control to do in the
16 U.S. and it can be approved. By doing that we feel at
17 least in the short term, the next 12 to 24 months, this
18 will be supported in the markets. Tungsten used to be
19 stockpiled in Alaska, Russia. They have subsequently
20 released all of their tungsten due to the market and the
21 market has been reasonably stable until the most recent
22 runout.

23 What we're requesting is a release of 20 million
24 tungsten doesn't require anything outside of the control

1 of the U.S. government, and, as I said, it will bring in
2 the short term some stability.

3 Beyond that, and we don't go into this in this
4 letter, but this is something I think we ought to think
5 about as a committee here and maybe we can talk about
6 this later on. The whole question of national raw
7 material strategy is really the answer here. It is
8 within the realm of fair and equitable trade practices
9 and existing mechanisms around the world.

10 It is not an issue you can avoid, and it is not
11 an issue that we want to respond to by erecting
12 barriers. That's not the answer because, you know,
13 China has a right to access the raw materials as much as
14 anybody else. Some of the practices are questionable,
15 but we need to respond to those within the available
16 channels.

17 But, really, this is what we ought to think
18 about as a Council which is how do we develop a national
19 policy on raw materials rather than being reactive every
20 time a Chinese company tries to buy a management company
21 here or in Canada. That simply is going to look even
22 worse for the U.S. policy and government, and so that's
23 really the ultimate goal.

24 For now we feel that in the short term we can do

1 something quickly to alleviate the pressure. Like I
2 said, we're about a \$3 billion industry in the United
3 States that could affect as many as 5,000 jobs if we
4 don't do something in the short term because of the
5 rapid escalation of tungsten. That's basically the
6 proposal as the Subcommittee has put it together.

7 What we're asking for is for approval to submit
8 the letter.

9 JAMES OWENS: Karen, maybe a word of
10 support. I spent some time on this letter, too.
11 Caterpillar strongly supports this initiative out of the
12 Subcommittee and hope the Commerce Secretary will be
13 supportive in bringing about a short-term solution.

14 As Markos said, we're not looking to put up
15 barriers. What we're looking to do is open markets,
16 create a level playing field. If you think about global
17 commodity markets, you just want to be sure that
18 manufacturers have reasonably fair access to; not
19 control prices, but reasonable fair access to these
20 markets.

21 We do need a better strategic thought on that
22 whole process within the United States. We also need to
23 introduce, I think, more into the trade negotiations,
24 and through WTO and what regulates global trade, we need

1 to make provisions to take better care of the sensitive
2 commodity markets and be sure that it is a fair playing
3 field, level.

4 KAREN BUCHWALD WRIGHT: Last night Markos
5 was talking a little bit about part of the problem is
6 that there used to be tungsten available from a lot of
7 other countries, but, apparently, in the last few years,
8 China now buys most of it. The long-term hope is that
9 other areas will get back into production. But could
10 you talk about that for a second?

11 MARKOS TAMBARKERAS: Yeah. It is not that
12 tungsten does not exist in other parts of the world, but
13 it has been -- the price has been unattractive for as
14 long as it has been pretty low because it was being
15 mined primarily in manual means in China where they can
16 have a possible price --

17 KAREN BUCHWALD WRIGHT: Very low labor
18 cost.

19 MARKOS TAMBARKERAS: As the pricing has
20 escalated, it is rapidly becoming obviously for mines to
21 begin to be activated. This takes time and it takes
22 capital. No one expects tungsten will go back to where
23 it used to be, which was \$60 a metric ton unit, just
24 like oil will go back to \$20. So it will be through

1 market forces that some additional capacity will come in
2 the stream over the next couple of years, but this will
3 not happen soon enough.

4 Between market forces and national policy,
5 cohesive and well developed, I think over time we can
6 deal with this. But then we have the short-term issue
7 which is kind of hurting all aspects of manufacturing
8 that's related....

9 JOE BOGOSIAN: Markos, I think you raise a
10 very interesting point in terms of long-term strategy of
11 the raw materials in terms of having a raw materials
12 strategy.

13 Before Hurricane Katrina and Hurricane Rita,
14 Secretary Gutierrez and Deputy Secretary Sampson led
15 within the Department a survey of -- take a look at the
16 path of these hurricanes and tell me which critical
17 industries are going to be affected and what critical
18 raw materials will be affected.

19 For Katrina, we found that 31% of the nation's
20 liquid hydrogen supply and consumption was going to be
21 affected, was affected. That plant was shut down. It
22 was flooded.

23 So we were able to work with Homeland Security,
24 with FEMA and the Army Corps to make sure that they

1 prioritize dewatering that plant so we could get that
2 critical raw material, in that case, liquid hydrogen, up
3 and running as quickly as possible and get the existing
4 supply that was stockpiled within the plant out.

5 So, I think, it is the concept of looking ahead
6 in the long term and taking a look at your raw materials
7 is very good.

8 KAREN BUCHWALD WRIGHT: Thanks, Joe.

9 Anyone else have comment, questions for Markos?

10 AUDIENCE: What's the annual consumption of
11 tungsten? What does 20 million pounds in the big
12 picture do?

13 MARKOS TAMBARKERAS: It is about -- annual
14 demand, world demand is about 110 metric ton units,
15 110 million metric ton units. That's the way they use
16 it. 20 million being released within the next 12 months
17 represents about 20% of that.

18 There are two aspects to it. One is bringing it
19 on stream so quickly, as 20% or so of the total will
20 help price.

21 There is also the psychological impact because
22 without a question, as you might expect in this
23 situation, there is also speculators that have moved in
24 and they're hoarding material. When you announce a

1 release from the DLA that used to release only a
2 5 million every year and say they're going to release
3 20, then the speculators are going to have to think
4 about releasing their stockpiles. So the combined
5 effect of the psychology and the amount is what should
6 bring a little more rational behavior in the markets.

7 AUDIENCE: Can I ask Markos another
8 question?

9 KAREN BUCHWALD WRIGHT: Yeah, sure.

10 AUDIENCE: Are there alternative compounds
11 being experimented with to replace tungsten?

12 MARKOS TAMBARKERAS: Another good question.
13 All the time. The industry, as you can imagine, because
14 every time you bend or drill or do anything with metal
15 you need tungsten as part of the tooling.

16 Nothing has been found so far. It has very
17 unique characteristics. In some cases you use ceramics.
18 In other cases you use other alloys. But tungsten is by
19 far the most suitable material for the type of operation
20 which is essential to all kinds of machines, oil
21 drilling and so on. While all the companies are looking
22 for alternatives, we don't think there is anything in
23 the horizon, not for quite a while.

24 AUDIENCE: Not to be running off the mouth,

1 but tungsten is used, to help these people understand
2 it, is not just -- ground engagement is a big consumer,
3 light bulb manufacturers, the list goes on and on. It
4 is more than just cutting.

5 MARKOS TAMBARKERAS: Absolutely. This is a
6 very broadly used material. The biggest user is the
7 metal working industry, but there are significant other
8 uses as well.

9 KAREN BUCHWALD WRIGHT: Anyone else have
10 any comments? Questions?

11 We have general agreement on this one. I think
12 this is a great recommendation.

13 WAYNE MURDY: So move.

14 MICHAEL NOWAK: Second.

15 KAREN BUCHWALD WRIGHT: Everyone in favor?

16 (All responded with aye.)

17 KAREN BUCHWALD WRIGHT: Thank you, Markos.

18 We would like to have a brief general discussion
19 and maybe this will accomplish what you wanted to talk
20 about, what you want to bring up.

21 CHARLES PIZZI: Madam Chair, thank you.

22 One of the things that manufacturing -- the
23 manufacturing has very high on its priority is safety.
24 There is several -- not only safety for our people but

1 for our customers as well.

2 I think that separates us from our global
3 competition, and I think time, effort, research is put
4 into this effort. I was wondering whether or not we
5 could get this on the agenda with the Council somewhere
6 to see how it affects our workforce. Is there any
7 better way --

8 KAREN BUCHWALD WRIGHT: Adds
9 competitiveness, too.

10 CHARLES PIZZI: Absolutely. Especially on
11 a global basis. I think safety is the number one issue
12 in the manufacturing sector.

13 Fred, when I was hearing you talk, when you
14 talked about workforce, that's our number one concern.
15 If there is a better way that we could get out to the
16 manufacturing industry through the federal -- the
17 National Safety Board, some overlap there, I think it
18 could be helpful in seeing what the Department of Labor
19 is doing to provide safety and, as I said, it does have
20 a global competitive issue as well.

21 So I don't know enough about it to tell you
22 other than I think it should be an area of the
23 manufacturing sector that we should be looking into.

24 KAREN BUCHWALD WRIGHT: We'll put that on

1 our agenda for the next meeting.

2 CHARLES PIZZI: Maybe it is, Karen.

3 KAREN BUCHWALD WRIGHT: Maybe it is
4 something we can assign to a subcommittees.

5 JAMES OWENS: The Department of Labor and
6 OSHA does a lot of compliance related work, and the best
7 practice to manufacturing certainly to survive is to
8 have safety standards above and beyond those levels just
9 as good business practice, good people practices within
10 our companies. Again, I'm a little reticent on calling
11 upon Washington to help get that done.

12 CHARLES PIZZI: I understand. That's why I
13 was, maybe, from a best practice standpoint we could get
14 some information from the National Safety Board to see
15 what the best practices are.

16 KAREN BUCHWALD WRIGHT: Or maybe the other
17 way to look at it is to recognize that almost all good
18 businesses already are doing this because it just makes
19 sense. It is the right thing to do. Perhaps we should
20 look at are we being penalized for that or are we being
21 recognized for it? How is the government treating the
22 things that we do? Because it does affect our
23 competitiveness, and it is how American business
24 conducts itself. I think, maybe, we would just like to

1 talk about what our practices are in the realm of
2 things. I'm asking you.

3 CHARLES PIZZI: Yeah. I was just saying so
4 the staff can take a look at it and see if it benefits
5 us. I also hear what Jim is saying.

6 JAMES OWENS: There is a tremendous amount
7 of benchmarking going on among leading edge companies
8 across all industries in trying to elevate our standards
9 for workplace safety. It is -- and there is certainly a
10 lot of expense to any company that has a poor safety
11 record in many industries, construction and mining, et
12 cetera. You can't even operate if you don't have an
13 outstanding safety record. There is a lot of standards,
14 a lot of compliance and a tremendously strong network of
15 benchmarking activity going on across the industry that
16 I think is being well used.

17 KAREN BUCHWALD WRIGHT: Maybe the other
18 issue is how other countries are complying, for example,
19 WTO members, are they complying with the same sort of
20 regulations that we are? Are they adopting the best
21 practices? That's an important issue.

22 All right. We're kind of running a little bit
23 behind, but I think that our -- I think we have some
24 ideas. The time now is to kind of have a quick general

1 discussion about some of the other things that we would
2 like to see be on our plate for going forward. I have a
3 couple that I want to make sure we talked about.

4 I already mentioned the (inaudible) Report issue
5 and that's on public companies.

6 The other side of that is private companies.
7 Probably the biggest issue facing private companies is
8 the estate tax. The permanent repeal of the estate tax
9 has been on the docket for a while. For a while there I
10 thought it might happen, and now I think we're seeing
11 diminishing hope for that. So that's going to be
12 something we should put on our agenda for next meeting.

13 Does anyone else have some suggestions on what
14 we might want to talk about?

15 EDWARD VOBORIL: I'd like to talk a little
16 bit more about education.

17 One of the nuggets in this HR250 is supporting
18 postdoctoral and research type activities in
19 manufacturing, although it is a rather small amount of
20 money.

21 I'm also on the advisory board of the McCormick
22 School of Engineering at Northwestern. Most schools now
23 are looking at nanotechnology and biotechnology because
24 that's where all the research money is.

1 For example, the industrial engineering
2 department, which is a very large department at
3 Northwestern where I'm from, where I graduated from,
4 there is a lot more difficulty getting the right focus
5 because there isn't a lot of research going due to
6 faculty limitations and so forth, they may be stronger.
7 I think from an educational focus where education at all
8 levels is important, but engineering undergraduate
9 education focused toward manufacturing discipline is an
10 important part.

11 I think we need to look at ways to strengthen
12 the engineering education activity for manufacturing,
13 and one of those ways is by making more funding
14 available for research related activities in those
15 particular departments that are the backbones to this.

16 FRED KELLER: Can I? I think the
17 opportunity may be not so much in finding more money but
18 for rewarding those institutions that are able to
19 convert that research into commercial development. We
20 have a lot of advancing science going on but not
21 necessarily advancing the economy going on through those
22 efforts.

23 KAREN BUCHWALD WRIGHT: Commercialization
24 of research and development at the universities.

1 FRED KELLER: That's right.

2 KAREN BUCHWALD WRIGHT: Anybody else?

3 WAYNE MURDY: Maybe more of a question.

4 How much -- I'm just not knowledgeable. About how much
5 work have we done, taking up on Markos' comments, as far
6 as strategic raw materials, strategic resources?

7 We do live in a global economy. Market forces
8 will drive this thing over time. Certainly, we see
9 periods of disruption, obviously. Energy is a classic
10 example of the reliance on foreign oil. We don't hear
11 much about it.

12 But I think as we go, this globalization works
13 two ways. America has been a beneficiary of it, and I
14 know we get a little upset when some other people play
15 hardball. I think, clearly, in the national interest
16 and in the interest of the sector we could get a handle
17 on some of these strategic materials. I don't know how
18 much work necessarily the government actually does, but
19 it might be interesting to get some perspective on that
20 maybe from the staff and then whether or not that's
21 something that should get more attention than just the
22 focus on strictly oil which is extremely important to
23 us.

24 DAVID SAMPSON: I don't know the answer to

1 what assessment has been done, but it is certainly
2 something we will be happy to provide information on.

3 ALBERT FRINK: I think, also, in regards to
4 some of the issues like tungsten and precious metals
5 that are critical and in times we're dealing with right
6 now I'm looking to that interagency working group where
7 we will have individuals from other departments at the
8 table available to interact with some of those concerns
9 and build those relationships and understand where their
10 needs are coming from so they can understand I'm a voice
11 for that aspect.

12 I really look to that newly formed agency as a
13 new opportunity to bring the awareness of what you are
14 talking about to people that are making a difference in
15 this, look at where we are and where we can go to.

16 DAVID SAMPSON: The Bureau of Industries
17 Security within Commerce does maintain a list of
18 critical -- I know of critical components. We'll just
19 have to check and see if they also do commodities
20 findings. My guess is that they probably do, but we'll
21 just have to check.

22 JAMES OWENS: Supplemental follow-up.
23 There are industries, for example, big manufacturing
24 employers that are basically relocating out of North

1 America because their whole principal is electricity,
2 and they have to get very low prices in order to
3 compete.

4 They're locating geographically where they can
5 have captives, like power, for example. So it is a
6 migration from our country. I'm not sure strategically
7 our government thinks about that.

8 The whole petrochemical industry is relying on
9 natural gas availability and globally price competitive.
10 What's our priority?

11 Back to some strategic considerations to give us
12 direction, but what types of industry do you want to
13 maintain in this country? We have to think about that
14 broadly. At least they have to be competitive on a
15 global scale. If we do things in this country to make
16 them uncompetitive on a global scale, we shouldn't be
17 surprised if those industries relocate.

18 WAYNE MURDY: Again, I think the key
19 question here is we want market force. Market force
20 will rectify this as long as it is a level playing
21 field. So it gets to the point in the tungsten, it is
22 like any supply, if there is a diversity of supply and
23 sources are coming from a number of areas in the world,
24 that's positive.

1 Of course, for long-term low costs will be the
2 source, but certain concentrations or to release certain
3 skill sets. I'm not sure long term.

4 KAREN BUCHWALD WRIGHT: But in the short
5 term, that is one thing that, I guess, we do want the
6 federal government to be paying attention to because we
7 can't as manufacturers influence other governments, like
8 the Chinese government, for example, which is at the
9 current time controlling a very strategic raw material.

10 MICHAEL NOWAK: I would like to bring up
11 the issue of patents.

12 I'm not sure how it will be addressed, but I
13 think there is a general recognition by the fact that
14 the Commerce Department has added these people to help
15 us defend the intellectual property overseas and we're
16 trying to spend more money on research and development.

17 But it seems currently here in the U.S. getting
18 patents has become a much more painful process, even
19 when you have a good idea that is patentable. Somehow
20 we have to make that easier or less time-consuming
21 because right now a lot of people aren't getting patents
22 because they just feel it is not worth the work and
23 effort to go through it.

24 KAREN BUCHWALD WRIGHT: Then there is the

1 problem with someone else borrowing it after you've
2 patented it.

3 MICHAEL NOWAK: I would like to get to that
4 point.

5 KAREN BUCHWALD WRIGHT: Okay.

6 DAVID SAMPSON: I think those are critical
7 issues the Secretary and I have been focused on at the
8 Patent and Trademark Office, and I would encourage Al
9 and others to pull in resources from other bureaus
10 within Commerce to come back and help brief Council on
11 critical issues like that.

12 KAREN BUCHWALD WRIGHT: I think Joe
13 mentioned there is an office now devoted to
14 investigating intellectual property, whatever you want
15 to call it.

16 JOE BOGOSIAN: That's from the
17 investigation and enforcement side. He is talking about
18 the U.S. Patent and Trademark Office.

19 DAVID SAMPSON: What they're doing is
20 planning to expedite -- reduce dependency and expedite
21 the quality of patents as well.

22 EDWARD VOBORIL: Here is a related matter.
23 I believe I read a report a while back that a
24 significant part of the revenues or income that comes

1 from maintenance fees and so forth actually doesn't stay
2 in the PTO, it gets drained off and put into the general
3 pot with other things. The question of allocation of
4 resources, focusing resources.

5 KAREN BUCHWALD WRIGHT: All right. Al
6 spoke to me here, slipped me a note that said we're
7 running out of time.

8 ALBERT FRINK: As much as I would like to
9 continue.

10 KAREN BUCHWALD WRIGHT: I think we will
11 have to finish up. Is there anyone in the audience that
12 still has something that they would really like to say?
13 We have had good participation throughout.

14 Anybody have anything to say?

15 We are going to have an opportunity for the
16 press afterwards to talk to us after the meeting.

17 We would like to thank everybody for coming to
18 our meeting and sitting through and listening to us and
19 being very polite and nice and smiling. We appreciate
20 that.

21 So if anyone -- if everybody is okay with it, I
22 think I'll ask for a motion to adjourn the meeting.

23 JAMES OWENS: Moved.

24 In adjourning, can I just thank, Karen, you, my

1 fellow Commissioners, the Commerce Department,
2 leadership, and my friends in the community, suppliers,
3 thank you very much for being here. It has been an
4 honor for us to help host this meeting. Thank you, and
5 so moved.

6 KAREN BUCHWALD WRIGHT: Second?

7 WAYNE MURDY: Second.

8 KAREN BUCHWALD WRIGHT: All in favor?

9 (All responded with aye.)

10 KAREN BUCHWALD WRIGHT: So the meeting is
11 adjourned. Thank you.

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13 11:23 a.m.

14 (Meeting adjourned.)

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