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FULL COMMITTEE HEARING ON THE ROLE OF SMALL BUSINESS SUPPLIERS AND MANUFACTURERS IN THE DOMESTIC AUTO INDUSTRY

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD
May 13, 2009



Small Business Committee Document Number 111-021
Available via the GPO Website: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

49–616 PDF WASHINGTON : 2009

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FULL COMMITTEE HEARING ON THE ROLE OF SMALL BUSINESS SUPPLIERS AND MANUFACTURERS IN THE DOMESTIC AUTO INDUSTRY

Wednesday, May 13, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] presiding.

Present: Representatives Velázquez, Moore, Dahlkemper, Altmire, Clarke, Griffith, Halvorson, Graves, and Westmoreland.

Chairwoman VELÁZQUEZ. Good morning, everyone. This hearing is now called to order.

For decades, the auto industry was a symbol of American innovation. But in the past few years, a combination of poor management, costly obligations, and dwindling profits has taken its toll. The resulting declines have done more than weaken the Big 3. They have crippled the small business community. As the automakers fight to stay afloat, countless entrepreneurs have been caught in their wake.

All across the country, small suppliers are struggling. They are fighting to survive in an uncertain industry and are suffering more than their corporate counterparts. This is a serious concern. These businesses not only employ millions of workers, but they sustain the very industry we are trying to save. At the end of the day, strengthening and supporting small firms will be critical. Failure to do so will shrink the supplier base further, dealing a lethal blow to businesses like GM and Chrysler.

In today's hearing, we will discuss the current state of the auto industry and will examine the impact of its decline on small businesses.

Like most corporate giants, the automakers rely on entrepreneurs. The industry is sustained by a multi-tiered, nationwide network of parts providers. These businesses produce everything from carburetors to tire rubber, and the vast majority of them are small ventures. But do not let their size deceive you. They account for literally millions of jobs.

Parts suppliers alone employ 3.2 million workers. But as the Big 3 continue to slide, an alarming number of small firms are following suit. In fact, experts predict half of the Nation's auto sup-

pliers will be shut down by 2012. Many have closed their doors already.

The impact of these bankruptcies is not isolated. When a small supplier goes under, it sparks a ripple effect, one that resonates throughout the entire economy. On the most basic level, we are talking about large-scale job losses. Already, thousands of workers in related industries have been laid off. If this trend continues, thousands more may lose their jobs.

In the last few months, steps have been taken to shore up the big automakers. But despite these actions, little has been done to help small suppliers. If anything, efforts thus far have failed small businesses. That is a big mistake. Cutting entrepreneurs out of the process means more setbacks down the road, especially considering the end goal of these measures—job retention.

Ultimately, we are trying to save jobs and stabilize our economy, not prop up an industry that has failed to keep pace with the times. Small suppliers are the businesses actively looking to adapt. It only makes sense to give them the tools to do so.

One of the greatest lessons of the financial crisis is that stability comes from the bottom up, not the top down. The automakers are no exception. It is critical that any restructuring accounts for small suppliers. Proposals to aid second-tier manufacturers, for example, will go a long way. But regardless of how the auto overhaul takes place, one thing is certain: It needs to be deep enough and comprehensive enough to reach small businesses. After all, that is the industry's foundation. That is where the jobs are, and that is our best bet for stabilizing and for rebuilding.

I would like to thank all of today's witnesses in advance of your testimony, and I am glad that they were able to take time off from their jobs and from their businesses to be here. I look forward to hearing from you.

So, with that, I would now like to yield to the ranking member, Mr. Graves, for his opening statement.

Mr. GRAVES. Thank you, Madam Chair; and thank you for conducting this hearing today on the role suppliers play in the auto industry and how the current economic conditions are obviously impacting them.

I also want to thank all of our witnesses for being here. I know you have come from all over the country; and I appreciate your taking the time, as the chairwoman pointed out, to come and be with us today.

Nothing illustrates the state of our economy better than the state of the domestic auto industry; and it seems that every day there are new media reports highlighting job losses, production cuts, bankruptcy filings, and plant closures. But a significant part of the story is being underreported. Suppliers play an equally important role in the economy, and it is important that their concerns are not overshadowed by the Big 3.

According to data from the Center of Automotive Research, suppliers contribute over $388 billion to the U.S. economy and are responsible for over 3.29 million direct and indirect jobs. These two figures stress the impact of the industry to the U.S. economy, and it is important that we understand the significance of these num-

bers. Congress must do everything it can to create a favorable business environment for these folks to be successful.

Auto suppliers are located throughout our country, and they include businesses of all kinds—from fabric makers and chip makers to die casters and surface finishers. They all have a vital role to play in the manufacturing of an automobile. When the economy struggles, the auto industry is affected, and its suppliers feel the ripple effect.

It is imperative that, as Congress considers proposals such as climate change and card check, we do not impose new burdens on the already struggling economy. I also believe that as we engage China on issues such as currency manipulation and on piracy we must do whatever is necessary to level the playing field. As Congress begins to debate health care reform, we must identify a way to increase accessibility while increasing affordability without imposing some excessive mandates. Lastly, we must keep a watchful eye on our tax policy and not increase taxes on the people that we are asking to lift us out of the recession.

Again, Madam Chair, I thank you for holding this hearing today. I look forward to hearing from our witnesses, and I look forward to hearing about how vital our Nation's suppliers are to the auto industry.

Chairwoman VELÁZQUEZ. Thank you.

Chairwoman VELÁZQUEZ. Now I welcome Mr. Carl Reed, our first witness.

He is the President and CEO of Abbott Workholding Products in Manhattan, Kansas. Abbott Workholding Products manufactures chuck jaws, tooling columns, and various workholding fixtures.

Mr. Reed is testifying on behalf of the Association for Manufacturing Technology, which represents American providers of manufacturing machinery and equipment.

Welcome.

STATEMENT OF CARL REED

Mr. REED. Thank you, Madam Chairwoman and Committee members. Thank you for this opportunity to address you.

I must say that Mr. Moore and I have had an association before when I was on the Manufacturing Technology Board, and he has been a strong advocate of small business and manufacturing. Even though he is not in my representation area in Kansas, I would vote for him if I were able to do that.

Chairwoman VELÁZQUEZ. That took 1 minute of your opening statement.

Mr. REED. Okay. Maybe it was worth it in today's market.

The opening statements from both you, Madam Chair and Mr. Graves, are pretty much what we have identified very nicely in our document, which I would like to submit for the record.

Chairwoman VELÁZQUEZ. Without objection.

Mr. REED. These gentlemen, I am sure, will amplify those same types of observations. So it might be helpful for the Committee members to understand, maybe on a more personal basis, the tiered system that we talked about. We obviously know that money is not being funneled down to where it needs to go.

In my particular case, I have two small businesses. One is in Kansas, and one is in Arizona. One is a foundry. So I am really on the bottom of the food chain. I actually sift the raw material, and I make the tooling that goes into the machine tool companies that some of these gentlemen have. They manufacture the product, and it goes on the line. So you are really talking about five or six different levels that need to be helped; and, at this point, no help has gone anywhere down, as you folks are well aware.

It also should be pointed out, which I am sure you are aware of, that we are not just associated with the auto industry. Although that is a primary contact for all of our businesses, we are also deliberately working for other industries because you cannot afford to have everything in one area. So if the auto industry, a major player, goes down and us with it, it is going to affect aerospace, it is going to affect automotive, it is going to affect industrial, ag, medical, anything.

So we have to be concerned that what we are doing in the areas of activity and help, hopefully, will allow the manufacturing sector to stay viable, especially the small businesses, which you probably are aware employs—about 80 percent of the jobs in the country. So we need to make sure that whatever we do can go all the way through the manufacturing sector.

Also, if we do not do something before too long, that American tradition of innovation and originality and entrepreneurship is going to be either bankrupt or it is going to be forced to go to other places to manufacture those products, which of course we do not want to do. Being a former Navy captain pilot, I do not want the military aspect to go aside, because we have to be able to provide products in a time of war or of urgency.

So, with that, let me make a few suggestions that in my business—and I think some of the others would tend to agree—might be helpful that we could do.

First of all, as for the SBA program that exists, in the past, it has been primarily used for seed money to get new ideas going and so forth. A suggestion that I might make is if we could come up with a plan where the SBA could function as a local bank, which are now very limited to us. Give us some low-interest loans, make it a 15-year amortization, a 5-year balloon, something like that, where it would give us an opportunity to get operation and working capital, not seed money. To stay in business, we need operation and working capital. So that would be one suggestion.

Most of us offer—because we want to-- health insurance for all of our own folks. In my case, I am going to be spending $250,000 this year on health insurance alone. Just to give you an idea, my average employee small business pay is a $15-an-hour rate. So if you fully burden that, you are looking at $4,000 a month. If you divide that into $250,000, I can keep eight more people employed, off the unemployment, working, if I had some relief from my health insurance costs.

Another suggestion might be—and a very simple way-- is to let us eliminate or at least defer FICA charges for a while. That immediately puts 15.6 percent back in the employer's pocket right away. You do not have to go through the Washington bureaucracy and the politics, and we officially would have that capital right away.

The last thing I think I would like to suggest is if we could get some straight infusion of cash and stimulus. That would be great, but I do not know how that is going to happen. But these other three, I think, are reasonable approaches.

I must say, before I run out of time here, that the $250,000 number that is floating about as the line above which Congress is considering tax rate increases, I want you to be aware that, in most small businesses, if you end up fortunate enough to make $250,000, that goes back into the business for buying machinery and tooling and for paying for health care. We do not buy corporate jets. We do not buy Ferraris to drive down the street. So I would caution you about any kind of a tax increase whatsoever.

Thank you so much for that opportunity.

Chairwoman VELÁZQUEZ. Your time is up, not because you were talking about taxes.

[The statement of Mr. Reed is included in the appendix.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Wes Smith. Mr. Smith is the President of E&E Manufacturing Company in Plymouth, Michigan, a company whose products are found in millions of American-made vehicles. Mr. Smith is testifying on behalf of Motor & Equipment Manufacturers Association. Since 1904, MEMA has exclusively represented and has served manufacturers of motor vehicle components.

Welcome, sir.

STATEMENT OF WES SMITH

Mr. SMITH. Thank you very much.

Again, my name is Wes Smith. I am the President and owner of E&E Manufacturing Company. I appreciate the opportunity to discuss the challenges we small suppliers in the motor vehicle industry face.

My company, E&E Manufacturing, is one of these small suppliers. We are located in Plymouth, Michigan, and in Athens, Tennessee.

We began our business over 45 years ago. In a sense, it has grown its footprint from a small, 5,000-square-foot shop to almost a half-a-million-square-foot, world-class service supplier of highly engineered stamped metal solutions; and we are proud to have several patents under our belt.

We were the first metal stamping company also in the Nation to be awarded the Michigan Voluntary Protection Program Star award from OSHA for our outstanding safety program, and we are determined to continue to provide safe and meaningful employment to our over 200 employees. Again, this is actually a national program under OSHA, and we were the first metal stamper to receive that, and we are very proud of that.

We are also currently on track to reach $50 million in sales this year. This projection, however, is only 50 percent which we had previously forecasted for our 2009 budget.

That the economic climate is a difficult one is no news to anyone. Despite the significant challenges facing the motor vehicle supply industry, very little substance has been focused on small suppliers; and we urge the Committee to work with others to craft specific policies to address the needs of these suppliers.

The auto industry and its supply base is one of the most intricate industrial complexes. On one side is the vehicle manufacturers. A dozen or so major original equipment manufacturers, OEMs, that dominate world production have sales measuring in the tens to hundreds of billions of dollars. On the other side are a dozen or so major material suppliers—the steel, aluminum, plastic providers—that, too, have sales measured in the tens of billions of dollars. Caught in between are the over 3,000 suppliers that produce the 10,000 parts that make up every passenger car and truck.

All of these parts of the supply chain are interdependent. Just as an example, 51 percent of GM suppliers are also in the Ford Motor supply base. In revenue dollars, this interdependency is even more dramatic. Ninety percent of the dollar amount that GM spends is with suppliers who also supply Ford.

Because of drastically reduced volumes and a nonfunctional capital market, this interdependent structure is in crisis. Financial assistance to suppliers has not provided small manufacturers with the capital and resources to survive. Let me give you three examples.

Firstly, the U.S. Treasury program was designed to provide protection against bankruptcy risk of General Motors and Chrysler. The program targeted only direct, larger first-tier suppliers of GM and Chrysler. As such, smaller suppliers facing financial distress are completely dependent on their first-tier customers to provide financial assistance through the supply chain.

Secondly, section 136 of the Energy Interdependence and Security Act of 2007 authorized grants and direct loans to eligible applicants for projects to re-equip, to expand, and to establish manufacturing facilities. The grant program had originally set aside money for small suppliers, but, in the end, the grant program has not been funded. Since the issuance of the rule last fall, the DOE has received over 100 loan applications. MEMA understands that a majority of the applications were component manufacturers, but it is highly unlikely that the smaller applicants will ever be able to qualify for these loans.

Thirdly, the SBA programs have been the foundation of the small suppliers' support for decades. However, the SBA loan programs are limited to only $2 million. Since suppliers are expected to fund a great deal of research and development in large OEM projects, the loan amounts have limited their usefulness and our participation.

Although small manufacturers should be able to turn to the SBA loan program, the current system is simply not designed to meet the needs of manufacturers with substantial raw material research, development costs, and working capital needs.

Perhaps these are unintended consequences. Unintended or not, these are significantly detrimental to my company's ability to protect and to grow meaningful manufacturing jobs in Plymouth, Michigan, and in Athens, Tennessee. I, myself, have traveled to D.C. a number of times and have met with over 100 Members of Congress, officials at the White House, as well as with the Departments of Commerce, Treasury, and the USTR to speak about manufacturing issues.

In order for change to take place, everyone must join in this fight. We are pleased to work with the Committee members on initiatives laid out in my written statement. I would like to thank you for your time and efforts to making the millions of American manufacturing voices heard. Our only hope is that this message is heard, understood, and is acted upon before it is too late.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Mr. Smith.

[The statement of Mr. Smith is included in the appendix.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Ron Overton. He is the Vice President and General Manager of Overton Industries International in Mooresville, Indiana. Overton has specialized in carbide tooling for over 40 years.

Mr. Overton is testifying on behalf of the National Tooling and Machining Association that represents the precision custom manufacturing industry. He is also testifying on behalf of the Precision Metalforming Association, which represents the $91 billion metalforming industry of North America.

Welcome, sir.

STATEMENT OF RON OVERTON

Mr. OVERTON. Thank you.

Madam Chair, Ranking Member Graves, and members of the Committee, thank you for the opportunity to testify today.

My name is Ron Overton, President of Overton Industries, based in Mooresville, Indiana. In addition to my role overseeing the day-to-day operations of our tool and die manufacturing business, I also serve as the current chairman of the National Tooling and Machining Association, the NTMA, which is partnered with the Precision Metalforming Association, the PMA, in Washington to speak with one voice on behalf of small middle-market manufacturers, including thousands of North American automotive suppliers.

My father founded Overton & Sons Tool and Die in 1968. It remains a family owned company, located in a quiet community in central Indiana.

Today, we have 84 employees, down considerably from years past. Sixty-five percent of our business is manufacturing tooling, plastic injection molds, and other products for exhaust systems, shocks and struts, and interior body panels supplied to the automotive industry. While we do not ship directly to original equipment automotive manufacturers, we primarily serve the General Motors, Chrysler, and Ford supply chains.

These are the worst times I have seen in my 30 years in this industry. Some experts believe that possibly 30 percent of these small companies will not exist 1 year from now unless the U.S. Government takes additional steps to support not only the automotive manufacturers in large Tier 1 companies but also downstream suppliers.

The greatest risk to companies like ours is if a large Tier 1 shuts its doors. At this time, Overton Industries has several million dollars in outstanding receivables from jobs for GM and Chrysler through Tier 1 companies. Members of the NTMA report that payments from Tier 1 suppliers can now take over 180 days, despite a recent survey that shows GM is paying their Tier 1 companies

on average within 58 days and Chrysler within 55 days. This is for the tooling work that businesses like ours provide.

Our overseas competitors receive progress payments and receive at least 90 percent of their payments before the product leaves their shores for the U.S.

How can small middle-market companies like ours continue manufacturing in America under the current terms?

The government established the Automotive Supplier Support Program and assumed the support of Tier 1 companies would trickle down to downstream suppliers. The government should help open the faucet, because the only thing trickling down right now are pink slips.

The moment a lender or a receivables interest broker sees we are involved in the automotive industry, they immediately move us to a high-risk category, will not extend credit, or will transfer us to a third-party lender. They do not believe we are bankable due to our auto industry work. Some brokers are only insuring 10 percent of an accounts receivable of some open Tier 1 invoices. Whereas, in the past, they would typically insure 70 to 80 percent.

A sample of automotive suppliers indicates that only 29 percent of downstream suppliers surveyed have access to credit based on the receivables from Chrysler-related business, while 37 percent of suppliers at GM have access to credit based on their receivables. A government guarantee of the receivables allowing safe passage of tooling payments through Tier 1 to these downstream suppliers will allow access to credit.

Even under the Small Business Administration 7(a) loan program, lenders do not believe companies with Tier 1 automotive supplier and manufacturer receivables are bankable, meaning we are too high of a risk for creditors. In addition, the 7(a) program requires all holders of 20 percent or more of a small business to personally secure the loans, which is something very few of us are willing to do in the current environment.

Without access to credit and without the leverage to secure payments, small, family owned companies like ours are bearing the brunt of the automotive industry's problems. I believe the Federal Government can extend relief to our companies by insuring or by guaranteeing receivables of businesses supplying a vehicle manufacturer which receives taxpayer funds.

For example, a tooling company like ours would register their purchase orders with the government, and it would either guarantee or insure or reinsure payment under certain terms. The government, as in the case under current U.S. and Canadian programs, could charge downstream suppliers a 1 or 2 percent fee depending on the service provided. The Federal Government would make money, and Tiers 2 and 3 suppliers could continue operations with the confidence that we would receive timely payment. This would also provide a significant comfort level to our creditors.

The government should provide a safe passage mechanism of our receivables through a Tier 1 in the event of bankruptcy or disruption in the supply chain. The Federal Government has much more leverage and resources to collect on outstanding invoices than a company with 84 employees in quiet central Indiana.

I cannot stress enough that this is not just an automotive industry problem. It impacts all Americans in all communities, especially small businesses.

Thank you for the opportunity to testify today.

Chairwoman VELÁZQUEZ. Thank you, Mr. Overton.

[The statement of Mr. Overton is included in the appendix.]

Chairwoman VELÁZQUEZ. The Chair recognizes Ranking Member Graves for the purpose of introducing the next two witnesses.

Mr. GRAVES. Thank you, Madam Chair.

Madam Chair, our next witness is Mr. Jim Jones. He is the Vice President of the Dixie Industrial Finishing Company; and he comes to us from Tucker, Georgia. He is testifying on behalf of the National Association for Surface Finishing.

I believe you have got 100 employees in your company. It is kind of the perfect example of what we are trying to find out today as far as how a company goes and how you are affected. Thanks for being here.

STATEMENT OF JIM JONES

Mr. JONES. Thank you, Madam Chair, Ranking Member Graves, and Committee members. It is a great pleasure to be here and an honor to participate in this hearing.

For almost 50 years, Dixie Industrial Finishing has supplied surface finishing services for a range of industries that provide jobs and quality of life for Americans as well as products for consumers worldwide. My company and nearly 2,000 operations like it are critical links in the automotive and in other major manufacturing supply chains.

Over 80 percent of U.S. surface finishing job shops employ fewer than 75 people, and the majority of the industry has less than $10 million in annual sales. Yes, at one time we did have 100. At the first of the year, we had 84. Now we are down to 54.

Like other key industries, surface finishing plays a significant, value-added role in auto parts and in the component supply chain. We use electric chemical technology to apply metal and other coatings onto literally thousands of different types of automotive parts. Our processes make the auto components that we finish look better, work better, and last longer.

An estimated 20 percent of parts on automobiles require the electroplating of metals or related coatings. Functional coatings give parts friction reduction, wear resistance, corrosion protection, conductivity, or other characteristics. Certain coatings are so critical for a car and, for that matter, for a jet or a spacecraft that they cannot work without them. In fact, one finishing company located in the Chair's district provides surface finishing services for some of the most sophisticated components and equipment used by NASA and the Department of Defense.

By volume, we estimate the automotive products account for nearly 50 percent of the total number of parts we service. The contribution of surface finishing to the broader manufacturing value chain has been estimated by some to approach $100 billion. The value added from the metal plating or related coatings is often higher than the value of the parts themselves.

The impact of the U.S. automotive crisis and its ripple effect through the supplier base has been extremely painful for the finishing industry. Those shops that service automotive directly, or through Tier 1 or Tier 2 suppliers, are currently facing the worst downturn we have seen in our lifetimes. As manufacturers, our economic livelihood depends on the health of our automotive and industrial customers.

It comes down to basic economics. When our customers suffer, we suffer; and the steady jobs and benefits that we provide for over 100,000 American workers in the finishing industry are disappearing at an alarming rate. It is estimated that the finishing industry has shed approximately 30,000 jobs nationwide just in recent months. Automotive is not the sole driver, but it is a significant factor.

Dixie Industrial Finishing Company serves a relatively diverse customer base. Our current revenues are just under 20 percent automotive. Our sales have dropped from $8.5 million annually last year to a projected $5 million for 2009. As I said before, we have reduced our workforce by 35 percent, but many job shops in the auto supply chain have seen sales decline by as much as 70 percent. These are typically well-managed, quality-driven, and customer-focused companies. Yet they face a near or certain disaster that has absolutely nothing to do with their ability to drive a successful business.

They have responded to massive production slowdowns by their large automotive customers by cutting shifts and by scaling back workweeks. Some have slashed every cost they can actually manage and are holding on until this crisis is over. Others have filed for bankruptcy. In the meantime, Chrysler's restructuring plans and GM's pending plant slowdowns create major uncertainties for the finishing industry of the future.

There are several immediate challenges faced by small auto suppliers that need to be addressed.

First, banks are not lending money. Very few, if any, small finishing job shops are able to get financing. We have not seen our job shops successfully using the SBA 7(a) guaranteed loan program for automotive-related programs. The program relies primarily on commercial lenders which are not financing automotive-related projects or manufacturing.

I was told yesterday by one CEO in the industry that he asked for an SBA loan program at a major bank. The bank said it was not lending to anyone whose exposure is greater than 25 percent, even with the SBA guaranteeing 90 percent of the loan and zero fees.

Other Federal assistance in the form of loan or aid has not been accessible to job shops. The program out of the Treasury that guarantees or insures receivables for the suppliers of GM and Chrysler limits aid direct to suppliers of GM and Chrysler. Some of my colleagues in Detroit were enthusiastic when we first heard about the Energy Department's programs. The association's outside counsel reviewed the eligibility criteria that will have high hurdles to participate. We are not aware of any company in the finishing industry that is participating in the program.

We have outlined a few recommendations in our written testimony that respond to the increasingly higher operating costs of the finishing industry and tax incentives for small manufacturers to invest in energy efficiency and environmental control. The problems that we face on a manufacturing front are repeated price concession demands from OEMs to the auto supply chain, the high structural costs for doing business in the U.S., off-shoring to Asia and to other low-cost countries, and unfair trade practices and currency manipulation by some of our trading partners.

The global economy has changed the supplier base of the automotive industry and of U.S. manufacturing. To illustrate this point, my company has been forced to replace 100 percent of its sales dollars in the last 10 years. This means that no matter how excellent our quality and service are, no matter how lean we have become through automation and continuous improvements, no matter how competitive we price, our industrial customers and opportunities continue to disappear.

In light of our challenges, we recommend to the Committee our broader agenda for helping finishers and other small manufacturers invest, innovate, and help create jobs for American workers. I have included this material in my written statement.

I am sorry for running over. In the South, we talk a little bit slower, but thank you for the opportunity.

Chairwoman VELÁZQUEZ. I let you go because I did not notice it.

[The statement of Mr. Jones is included in the appendix.]

Mr. GRAVES. Thank you, Madam Chair.

Our next witness is Chris Norch. He is the President of Denison Industries in Denison, Texas; and he is testifying on behalf of the American Foundry Society.

I appreciate your coming today.

STATEMENT OF CHRIS NORCH

Mr. NORCH. Thank you.

Good morning, Chairwoman Velázquez, Ranking Member Graves, and members of the Committee. Thank you for providing me the opportunity to comment on the vital role the metalcasting industry plays as a supplier to the domestic auto industry and how the downturn in the auto industry is having a devastating impact on many of our member companies.

As President of Denison Industries, my metalcasting facility is comprised of 125 employees who specialize in the production of aluminum castings for the automotive, defense, aerospace, and commercial sectors. I am here representing the American Foundry Society, or AFS, where I serve on its national board of directors and also as a regional vice president.

The AFS is a major trade and technical association for the North American metalcasting industry. It is comprised of more then 8,500 members, representing more than 3,000 metalcasting firms, their suppliers and their customers in every State in the country. The majority of our members are small, family owned businesses with an average workforce of 100 people or less, operating in small towns and cities across the country.

The metalcasting industry is a critical supplier to the automotive industry and to the auto supply chain in general. It provides at

least 100 castings in every lightweight vehicle produced in the United States, which equates to more than 600 pounds of cast metal per vehicle. In fact, automobiles and other transportation equipment utilize 31 percent of all castings produced in the U.S., including engine blocks, crank shafts, brake drums, and transmission housings, to name just a few.

The recent decision by Chrysler to file for bankruptcy and to shut down its plants during bankruptcy could not have come at a worse time for our parts suppliers, whose revenues have already fallen sharply. Our auto suppliers are already trying to figure out how to survive.

The other recent surprise news is that GM will shut down many of its plants for most of this coming summer. These shutdowns could and will be disastrous to many metalcasters because they are already operating on paper-thin profit margins because of previous production cuts and because of the strong-arm pricing tactics from the Detroit 3.

Some of our small suppliers will have to liquidate, because they do not have the resources to reorganize in Chapter 11 bankruptcy. Over the past 6 months, 15 metalcasters alone have been forced to close their doors or will close shortly, from Navistar's Indianapolis Casting Foundry, employing more than 700 workers, to 25 workers at the Elmira Pattern & Foundry in New York. Other facilities closing are located across the country—from Monroe City, Missouri, to Warrenton, Georgia, to Van Nuys, California.

In recent months, we have seen a surge of foundry layoffs directly related to the downturn in the auto sector in hundreds of communities. Grede Foundries, a Milwaukee-based company, operating eight foundries, has struggled with the severe downturn in the economy. It has had to lay off hundreds of workers at its Minnesota, Wisconsin, and Michigan plants. A factory manager at its St. Cloud, Minnesota, foundry recently reported that orders are down from the auto sectors by 65 percent compared to a year ago. At the end of April, they have announced they will be closing their Greenwood, South Carolina, automotive foundry in an area that has already been hit with 14 percent unemployment. The AFS estimates that we could lose another 30 foundries in the next 6 to 9 months if we do not see a rebound in the automotive sector and in the economy in general.

With little attention being focused on the lower tier suppliers, we need Congress and the Obama administration's support to help ensure the survival of Tier 2 and Tier 3 metalcasting suppliers. A recovery plan for GM and Chrysler is simply not viable unless it takes into account the entire automotive supply chain, including the metalcasting suppliers of small- and medium-sized businesses who supply Tier 1 companies.

In addition to the downturn in the auto sector, the metalcasting industry must overcome a multitude of domestic and international challenges. We are concerned with pending climate change legislation that would increase our energy costs significantly. We will not be able to compete against foreign manufacturers who already have huge labor regulatory and subsidy cost advantages. We are concerned about our government's current trade policies that have dramatically affected the viability of our industry and of the future of

the U.S. domestic metalcasting industry, and its jobs are severely threatened by the increase of imported castings as offshore facilities have grown to meet more than 23 percent of the demand in the U.S.

A number of our U.S. trading partners, most prominently China, have actively pursued policies that undervalue their currencies and subsidize the manufacturing sectors. Because of these lower costs, our association members continue to see their customers move offshore, but we urge you to support the proposed bipartisan currency manipulation bill, the Currency Reform for Fair Trade Act, which will be introduced today.

We all have a stake in a strong automotive domestic industry. As Congress and the administration invest billions of dollars into Chrysler and GM, it is vital that we help ensure the survival of Tier 2 and 3 companies in the supply chain. A recovery plan for Chrysler and GM is simply not viable unless it takes into account metalcasting suppliers. Any restructuring plan must preserve jobs in the U.S. and not shift more of GM's and Chrysler's manufacturing footprints from the U.S. to Korea, India, and China. The future of our country is intertwined with the success of our manufacturing base. Our country is dependent on a strong economy, and we cannot have such without a strong manufacturing presence.

Thank you very much for your time.

Chairwoman VELÁZQUEZ. Thank you, Mr. Norch.

[The statement of Mr. Norch is included in the appendix.]

Chairwoman VELÁZQUEZ. The question I am going to ask is a very important question for the record, so I would like for each of the witnesses to answer it.

I know that each of you represent a small business, but you are representing also five different associations, and I would like to ask you the following: To date, the administration has allocated nearly $38 billion to the domestic auto industry. How much of these resources, if any, are going to the small firms that supply the big manufacturers?

Mr. Reed.

Mr. REED. I would have to check for sure, but my opinion is, in our area of machine tool manufacturing, I do not believe any dollars have gone in.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Smith.

Mr. SMITH. Although I do believe, in General Motors' case, that there are small suppliers that are signed up for either the early pay or for the receivable protection program and although it would be somewhat few, the reality is that most of those have not been—you know, the funding has not flowed, really, on any of that. Of the $38 billion, most of that went directly to the Original Equipment Manufacturers. The set-aside, which was the $5 billion for the Tier 1s and in particular for the direct suppliers, that has not really been effective at this point.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Overton.

Mr. OVERTON. I am not aware of—we represent primarily Tier 2 and Tier 3 suppliers, so I am not aware of any of that $38 billion that has trickled down to any of our members in either association,

the National Tooling and Machining Association or the Precision Metalforming Association.

Chairwoman VELÁZQUEZ. Mr. Jones.

Mr. JONES. On the surface finishing side, I only know of one surface finisher who does direct work with one of the Big 3, and he would be able to participate. All other surface finishers are in the Tier 3 and Tier 4 levels.

Chairwoman VELÁZQUEZ. Mr. Norch.

Mr. NORCH. As far as the record to date from the American Foundry Society, we have seen no money trickle down. On the contrary, receivables are still being pushed out anywhere from over 60 to as many as 120 days. So the effect is devastating right now.

Chairwoman VELÁZQUEZ. Thank you.

To all of the witnesses, with the extended shutdown at GM this summer and with the lingering potential for another bankruptcy filing, clearly, businesses like the ones that you represent will be bracing for more difficult conditions. Could bridge financing programs or other types of short-term Federal assistance help your members weather the storm?

Mr. Reed.

Mr. REED. Yes, I would think that is an episode that we have to pursue. I must caution that most small business people do not necessarily want more regulation and the government involved, but we are in a situation where we do not have a choice.

Chairwoman VELÁZQUEZ. Okay, let me ask you another question. What size loan will be necessary to support businesses like yours through the downturn? What would be the average size?

Mr. REED. That is a tough question because we represent—there are some folks whom I know who are $17, $18, $20 million in the hole. If you get down to the Tiers 4 and 5, $500,000 would get someone through the next 6 months. I think that is what we should think about, getting everybody through for the next 6 months.

Chairwoman VELÁZQUEZ. Okay. Mr. Smith.

Mr. SMITH. From our standpoint, the issue is that most loans are based on receivables. Quite frankly, there are not any receivables out there, and that is the issue. The issue with the crisis in the auto industry is not so much ″will my pre-petition bankruptcy amount get paid?″ It is ″what are we going to sell afterwards?″ So I would like to see a program that is really going to help us not on the downturn but hopefully on the upturn. So when things turn around, you are going to do that from a base of no receivables, so you actually have no cash to go ahead and buy new raw materials or to fund, you know, your inventory buildup to start supplying. That is going to be the crisis for us.

Chairwoman VELÁZQUEZ. Mr. Overton.

Mr. OVERTON. The possibility of a GM bankruptcy or shutdown is going to be devastating to our Tier 2 and Tier 3 members. We are already feeling it with Chrysler, but GM will be considerably worse than what the Chrysler effect is going to be.

On the issue as far as loans, we are looking more to be paid for the receivables we have out there right now. We have got receivables. Typically with the payment practices of GM, Ford, and Chrysler in the part approval process, we have receivables out there for 6 months to 2 years that are several million dollars. If

GM declares bankruptcy and being unsecured creditors and if all that money is lost, the effect on our Tier 2 and Tier 3 members would be devastating.

Chairwoman VELÁZQUEZ. Okay. Let me ask you, would your business be willing to pay a nominal premium for credit insurance or for, perhaps, its receivables if you knew you would be paid in a timely manner and through a Federal program or financing facility?

Mr. OVERTON. Absolutely. I think that is the answer. I think that is the cleanest, quickest answer.

If it is comparable to what the Canadian government does with their EDC program in the export division of Canada, they charge a 1 or 2 or 3 percent fee to insure those receivables. I think that is the cleanest, quickest answer. We need that desperately to happen before GM files bankruptcy, to guarantee those outstanding receivables.

Chairwoman VELÁZQUEZ. Mr. Jones.

Mr. JONES. Thank you.

As we all know, cash flow is the life's blood of any small business, and if manufacturing opportunities are disappearing, then, consequently, that certainly affects the cash flow, whether it be with manufacturing through the Big 3 or whether it be through other support industries for the automotive. But certainly any infusion of cash into the small businesses would certainly help them.

Chairwoman VELÁZQUEZ. What would be the average size of the loan, if you were to take that route?

Mr. JONES. It is difficult for me to say the financial structure of all of the industries. For ours, we are looking at about a less than 20 percent exposure on the automotive side. However, we are seeing opportunities that are disappearing and that are going out of the country in other sectors. Then, hopefully, we can start looking at some of the unfair trade practices and other issues that are affecting manufacturing, to try to bring some manufacturing back into the country. Then somewhere in the neighborhood of probably $1 million would—

Chairwoman VELÁZQUEZ. But would you agree with Mr. Overton's assessment of paying a minimal premium for credit insurance or perhaps a discount for its receivable if you knew that you would be paid in a timely manner? Would you support that?

Mr. JONES. Yes.

Chairwoman VELÁZQUEZ. Mr. Norch.

Mr. NORCH. I agree with the comments made by Mr. Overton. I would add that it is difficult to assess the amount per each individual business based on what their leverage or exposure is with the auto markets.

In conjunction with what Mr. Jones stated, as we are looking at propping up these Tier 2, 3 and 4 businesses, we also need to look at, really, drastically reviewing those trade policies and bringing manufacturing back, but we also have other issues where we could create work for the industries that we are all here representing in the form of technological advances in all of our services, providing work for renewable energy sources, alternative energy sources, and all kinds of things that we can make in this country. That is what built this country—making, manufacturing things.

And we have other avenues where we should be putting some time and effort into as well. I think that will help prop up the hit that a lot of these businesses are taking. We would have to diversify and maybe be a little creative. But, again, the ingenuity and industrial sector is what built this country to begin with. I think, collectively, we can work together to pull out of a lot of these sectors.

Chairwoman VELÁZQUEZ. Thank you, Mr. Norch.

Now I recognize the ranking member, Mr. Graves.

Mr. GRAVES. Thank you, Madam Chair.

We had a hearing—I do not know—3 or 4 years ago in a Subcommittee that I chaired dealing with piracy. I know this is a little bit of a side issue, but we kind of brought up some of you losing your businesses possibly to China. The question is for all of you:

Does it concern you, you know, when you have got manufacturers trying to control costs, maybe going or looking for something like that? When we had that hearing on piracy, I mean, the products were absolutely identical. The quality was horrible in most cases, you know, but they were absolutely identical, even down to the packaging in many cases. Do you all worry about that? You know, is it a concern? Is it a growing concern, you know, shifting more towards those sub-quality products for a much cheaper price sort of thing and particularly, you know, with our piracy issues that are coming out of China right now?

Mr. Reed.

Mr. REED. Yes, I would concur totally with that.

There are two sides to my personal business. On the foundry side, as anyone knows and as the gentleman with the foundry association knows, you cannot compete with the Chinese market in that place. They will copy you. They will send stuff into the United States. I actually had an operation in China, which I have since cancelled, because of that situation. They were basically just pirating the activity.

I think the problem that we are facing is we do not play on a level deck in America. You know, I think, with the number that we come up with, we are already starting like 25 percent behind the curve when we go compete against anybody else in the world because of our tax codes, because of OSHA, because of everything else.

We have been able to be successful over the years because of the innovativeness and productivity of the American worker, and that is what is so critical to me right now, is that I see—and all of us were saying the same thing. Basically, we have to do something to keep the small businesses going with the technology and innovation that we have had for so many years.

I think we have a lot of other issues other than piracy. Obviously, we have got our own problem internally right now. If we can get that solved, yes. Yes, sir, Mr. Graves. I think we need to pursue that in some order of fashion. You know, nobody wants the protectionist system, per se. We want to be able to do what we think we can do better than anybody else. That is what has made us do these things.

By the same token, you would like to have some support from the government as well as from the international community to make sure that we are playing by the same rules.

Mr. SMITH. On behalf of MEMA, we have a large number of our members who get a large number of their sales from the after-market business, and it is absolutely critical in terms of piracy. We see piracy in the stealing of jobs out of the U.S. that is destroying these businesses. The sales of pirated products coming in are absolutely astronomical.

I know that there was legislation passed several years ago to address, you know, issues of piracy and copyright, but, quite frankly, these issues have not really been overseen or administered, I should say. There is nothing that has really been done about that. So we need to put some teeth into this legislation that is already out there and enact some of the current piracy legislation that is in place and really go after these folks in a hard way. I mean, there are several cases—brake shoes made of sawdust. I know you have seen all of that, and it is very disturbing.

Chairwoman VELÁZQUEZ. Mr. Overton.

Mr. OVERTON. We have seen the piracy issues firsthand even on the tooling side. We have had an opportunity to build some tools for China, and you know going in that you are going to get one opportunity, and then you are not going to see it again because those tools are going to be copied, so there is an immediate concern and a very real concern. We have had customers who have actually outsourced to China, either tooling or product development—product part run production—and they have actually created competition for themselves because China copied those tools. They copied those parts, and they have seen it on the shelves right next to their products from the very tools that they had built and parts they had run in China. So it is very real all the way down to the tooling side, the piracy.

Mr. GRAVES. Mr. Jones.

Mr. JONES. As I mentioned earlier, the surface finishing industry does not manufacture anything. We just make things look better, work better, and last longer. So we are dependent upon a strong manufacturing infrastructure in this country for the survival of our industry.

What we are seeing in our customer base is that some of our customers are sending products to China, maybe to have it quoted, and they may not have taken advantage of the China price and kept it here in this country, and they may have used it to leverage some of the other costs down domestically. However, several months later, the same part they sent to China to have quoted they are seeing in a catalog from China up to the portion with their logo on it. So that certainly is pirating.

Other things on the quality side, we have one of our major customers who competes worldwide, especially with China, on some product that is used in the construction industry. Two years ago, we had a chance to go over to China to take a look and see what they were doing and how they were doing it, and we looked at some of the heat treating they were doing on some of the product, and we said, what do they know that we do not know? We came back. We ordered some of the product or they ordered some of the prod-

uct. They sent it out to independent testing labs—to 10 different independent testing labs throughout the country—and 7 out of 10 of those products failed the torsion and structural tensile tests that are required for that grade of product. Those products are used in safety and nuclear equipment.

Mr. GRAVES. Mr. Norch.

Mr. NORCH. Thank you.

In the metalcasting industry, we use a lot of tools and dies to make our products, so Mr. Overton and I may be a little redundant in some of our comments here.

Just over the past decade or so, the metalcasting industry has just been besieged with tooling quotes, et cetera, coming from China. A product goes over there. It is absolutely pirated. Every type of domestic oil and gas drilling equipment has been prominently displaced over there—compressors, things of that nature.

What we do as well in the automotive sector at Denison Industries is we make a lot of castings for the defense market, and we do a lot of scanning equipment, things in our industry that would go for—the base of the equipment that would find a life-threatening disease, things that would scan luggage at an airport to keep things out of the airports from people who are trying to harm us. We produce armaments and vehicles that transport and protect our troops and our defense systems.

What is the next thing to go and be pirated over there? I hope that we do not fall into going after that for cost purposes alone.

Chairwoman VELÁZQUEZ. Mr. Moore.

Mr. MOORE. Thank you, Madam Chair.

I would like to direct my first question to my fellow Kansan, Mr. Reed, and to Mr. Smith as well. If anyone else should care to comment, please do.

There is no question that recent events in the auto industry, including Chrysler's bankruptcy filing and GM's announcement that there will be shutdowns this summer, could have huge impacts on small manufacturers and parts suppliers that will lack the cash flow to maintain operations. These problems are exacerbated by the fact that the freeze in the capital markets has been crippling for many small manufacturers.

Could you tell me what problems you are facing with regard to receiving loans or lines of credit from banks and what you think are the most effective ways to ensure that viable small manufacturers and parts suppliers have access to the capital they need to maintain operations while the auto industry restructures and while the economy recovers?

Should we be looking at the expansion of the automotive suppliers' support program, at a direct loan program administered to the SBA, or at a reconfiguration of 7(a) loan guarantee requirements to ensure that small manufacturers can participate even if they are dealing with cash flow problems? Do you have any comments on your situation?

Mr. REED. Yes, sir, Mr. Moore. I think I mentioned some of those in my opening statement.

Personally, in my situation—in fact, in Kansas, just to give you an idea—I asked three local banks. There were 330 banks in Kansas that were offered the TARP. Four of them took the TARP. The

reason my local bank and others in Manhattan did not do that was the 9 percent cost of money that was put on that and the bureaucracy and the regulations that were further put on the banks participating. They did not want to pursue it.

Now, my personal situation is such that I, at the current point, do not need the working capital there. I do need it in Arizona, but I do not need it in Kansas at this point. The problem we are facing is the banks, theoretically, are not necessarily increasing the level of qualification to get the loan, but they are not lowering it either. They normally look and say, what is your cash flow? That is what somebody said. You know, cash flow, cash flow, cash flow. If the receivables are down because we do not have the business base anymore and the cash flow is down, we need to have the working capital, which I mentioned earlier.

Mr. MOORE. Sure.

Mr. REED. The SBA does not do it under the current situation. That will not help us. But if we expanded it to the suggestion that I made earlier or to something like that, that would be very helpful.

As far as the other activities, I think we are looking at 90 days to 6 months. If we do not do something, an awful lot of these people are not going to make it. Again, nobody wants a handout, but, at this point, we have to have some way to keep the operation going, to keep the payroll going, and to keep those people employed. Because when it does turn—and it will turn—you are going to lose all of the qualified people, and that is more difficult to get started than before.

So I think that addresses at least one of those, Mr. Moore.

Mr. MOORE. Thank you, Mr. Reed.

Mr. Smith, do you have any comments, sir?

Mr. SMITH. Yes. In terms of the large Tier 1s—and that is a lot of our issue, the health of the large Tier 1s—we need to make sure they are healthy and that they get through this crisis.

The MEMA, originally when the programs were put in place in the $5 million carveout, if you will, for the supplier early pay and receivables insurance program, it estimated that $14 billion was needed, not $5 billion.

Also, the timing of just getting these things done has been very cumbersome. For instance, a lot of the wait, if you will, is doing lien searches on all of your receivables. So with the time and with limited resources when lien searches are done, the OEs are acting as quickly as they possibly can, but, quite frankly, their hands are tied somewhat by, you know, the city and also by the Treasury Department in terms of getting these things through.

We need to have a quicker response. We need to have the Tier 1s healthy so that the tooling industry gets paid and so that everyone is paid. We also need to have a program in place to help us. Again, when things turn back up, we have got to have the cash to be able to fund these things.

In terms of the smaller companies, absolutely, the SBA needs to be redone. $2 million is not enough. At a minimum, it should be $5 million; and it needs to be able to be done quickly. Some of the requirements in the Ts and Cs that go along with that need to be really smoothed out. I mean, we appreciate the fact that the fees

were waived for the automotive crisis, but it is not the fees, it is the timing, the amount, and some of the other requirements.

Mr. MOORE. Madam Chair, my time is about up. I yield back the balance of my time. Thank you.

Thank you to the witnesses.

Chairwoman VELÁZQUEZ. Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Madam Chairman.

I thank all of you for being here.

I realize the condition the auto industry is in, but for you guys in the manufacturing business, I think we have always seen a lot of the business manufacturing shipped overseas, and manufacturing is a key foundation to this country.

So, Mr. Jones, I wanted to start out by asking a fellow Georgian a question. You said in your testimony that the problems for your industry are larger than the automotive crisis. I would like for everybody to answer this: Where do you see other segments of U.S. manufacturing headed? Because, to me, manufacturing has been hit harder than anybody else with job loss and, really, with company loss. So I would like to hear your answer to that.

Mr. JONES. Thank you, Congressman.

As I mentioned, Dixie Industrial Finishing has had to replace 100 percent of its sales within the last 10 years. The reason for that is the exodus of manufacturing in our region to other parts in the world, whether it be to Mexico or whether it be with manufacturers importing their product that they previously manufactured domestically and now are importing from China or India or from other low-cost-producing countries that do not have the same regulatory requirements that we have.

They do not have the structural costs that we have. They do not have the tort. They do not have the taxes. They do not have the health care. They do not have the regulatory. They do not have the energy costs that we have. So, consequently, we are having to deal with their going elsewhere and our trying to find new business.

Well, where is our new business coming from?

Our new business is coming from those in our industry who have suffered far greater than we have, by closing their doors, and that is where we have been able to pick up some business. We have also been able to do a lot of things to keep some business here and to allow some of our customers to be able to compete in the world market through innovation and technology by productivity improvements.

We have one product that we have processed over the last 7 or 8 years to help one of our customers. We have increased productivity by over 300 percent. On other products, we have had as much as 200 percent and some 100 percent.

So we are constantly investing, and we are constantly looking at new technologies. We are constantly doing things to try to protect our customer base and to protect the jobs here in the U.S. and to try to keep them from going elsewhere. At other times, we cannot do anything about it.

Mr. WESTMORELAND. Now let me ask you this: Is that due to bad trade agreements? Is it due to overregulation? Is it due to environmental? Is it due to, as you mentioned, I guess, labor laws? Has

that led to part of it or is it just bad trade deals? What is causing that?

Mr. JONES. I think that it is probably a combination of many. On the regulatory side of our wastewater treatment, the water that we use for our processes and our environmental controls, we spend right at 10 percent of our sales dollar on regulatory issues. A gallon of water costs us .008 cents per gallon to purchase it. When it goes out our door after we have treated it, we tack another 3.9 cents per gallon onto that gallon of water. That is a cost associated.

We have other things that we are looking at that we are having to face with some of our trading partners, certainly low wages, no regulatory. They have unfair trade practices such as currency manipulations. There are other issues as far as government subsidies and items that they export to the U.S.

So these are some of the items that are affecting manufacturing domestically.

Mr. WESTMORELAND. Any of you other gentlemen on the panel would like to address that?

Mr. REED. I think it goes along with what we mentioned earlier about the problem with dealing overseas, and even some of the American trading partners of ours where we have the inability to compete.

At the risk of upsetting the Chairwoman again, we have to do something about the taxes. We are 25 percent behind the eight ball starting out—most of that is tax or import duties or things like that. Add the Federal situation and most of the States are hurting too. So what are the States going to do? They are going to be increasing the taxes, and the counties will too and so on. And by the time you get done, there is nothing left for anyone to do. And your margins are so small to be competitive, it really becomes very, very difficult.

And then you add the health care cost issue, the coverage of which we all want to do. That is one of those things that we feel strongly about. It becomes a very, very difficult situation.

So I do think that we have a short-term problem which we have kind of addressed here about how do we get cash infusion, how do we keep people alive for the next 6 months. But we really have a long-term problem in America among manufacturing in that we are kind of forgetting about how we got where we got to, and if we don't look into that, a lot of these industries are going to end up being forced out overseas.

I have one gentleman in my association who last year had 580 people. This year he has 210. He had four plants, and now he has one, and unfortunately, the one plant is in China, and that is just the nature of the beast.

So we really need to look seriously at that once we get out of the hole we are in right now.

Chairwoman VELÁZQUEZ. Mrs. Halvorson.

Mrs. HALVORSON. I come from western Pennsylvania, an area that has been a traditional manufacturing area, and many of our small manufacturers also produce tier 2, tier 3, tier 4 manufacturing for the auto industry.

I guess I have a couple questions, and I am going to start back maybe more at the beginning.

How much of where we are today do you think really was contributed by the fact that the auto industry's business model didn't maybe look to the future? And I will open that up to anyone who wants to address that.

Mr. NORCH. I agree wholeheartedly. Having many of our members do business with tier 1s and some direct to the Big Three, there has been just a blatant beating down of these tier 2 and tier 3 metal casters to ″you lower your cost,″ you do this, you—everything that comes in, you need to have a give-back.

We have one company here that I am aware of in the last month, they closed a plant and laid off 350 employees, moved the machining cell into the current facility because they had opened space from already having a major layoff. And their automotive customer, one of the Big Three, said, oh, now that you have moved that indoors, how much of that can you give back to us? Utterly amazing.

And it goes back—you think, all of us small business people that are going back and cutting costs; becoming leaner, meaner; becoming more innovative, more creative. My foundry, we put out just as much product now with 125 employees than we did with 186. Why? We were creative, versatile, and we did things to keep ourselves moving forward. How can a company—when they think ″slowdown offer,″ $2-, $4-, $6-, $8-, $10,000 rebates on vehicles to get off the lot, where was that money going all the other times, going out the door in bonuses and all of these other things that were poor business practice, and where was the saving for the rainy day that is here now?

Mrs. HALVORSON. Anyone else like to address that? Yes, Mr. Smith.

Mr. SMITH. I have to disagree. I think that the U.S. auto manufacturers that are currently in this crisis, they definitely have vehicles that are relevant. The fact is that we have a very fickle consumer society in that years ago, people said, how come there aren't more hybrids? Well, quite frankly, they can't give hybrids away today. It changes so quickly.

The fact is the quality is on par with anyone, the vehicles are good-looking, they last, they are excellent products, and I think they are relevant. I think it is costs and, quite frankly, a cost cycle that has finally come up with them in terms of these same issues that we talked about. The pension liabilities that—you have to remember General Motors, the size of General Motors, where it is was 30 years ago versus where it is today, the number of employees that it is still obligated that they do what is right by the workers, and you compare that against the new domestics who are relatively—although they have been here 25 years or more, that is still relatively new when compared to a company that has been around for 100 years.

Some of these cost cycles, I think that the thing we need to see in the industry is we just need to get over this. We need to put the right amount of money so they can come out of this thing strong and healthy. I know that it was stated that $38 billion has been dedicated so far to the industry. Well, quite frankly, we talked about that same number that was going to be needed in the fall time, but the money came too slow and not enough on time, quite frankly, as the way that I see it in that we have spent close to a

trillion dollars in order to save or create 3.5 million jobs. Well, for less than a tenth of that, we could save and create 3.5 million jobs.

And I think that when you take a look at my State of Michigan, the fact that Michigan has struggled with its unemployment numbers as much as it has, it has not just been the loss of the automotive jobs; what we have lost is the job creation factor of those jobs. For every tier 1 automotive job in the Midwest, it creates five to eight additional jobs. So when you lose a tier 1 automotive job, five or six jobs follow.

Mrs. HALVORSON. I think what Mr. Norch is saying is that the tier 2, tier 3, they have gone lean. I think that is what I have seen in my district are that those companies are producing with amazing efficiency. I am not sure that we saw that in the Big Three. And I come from a family where my brother-in-law was an executive at Chrysler for many years, and I am saying that, I guess, from my personal experience.

Mr. Overton?

Mr. OVERTON. I agree with most of Mr. Smith's comments.

There is a distaste for the Detroit Three, or whatever you want to call it, in the United States right now. Most people looked at it and said, let them go bankrupt. What they didn't consider was the jobs that we create, the five to eight jobs for every one job that is in the Detroit Three.

Mrs. HALVORSON. I think that you have all done your jobs. That is what I am saying.

Mr. OVERTON. A lot of this has been brought upon themselves.

Chairwoman VELÁZQUEZ. Mr. Griffith.

Mr. GRIFFITH. Thank you, Madam Chair.

I am from Alabama. We in Alabama have been producing a great number of automobiles and think of ourselves as possibly the Detroit of the South.

What I think are a couple of things that come to mind: Number one, do you think we are going to get back—we sold 16 million units of automobiles in our heyday, maybe 17 million. We are probably down at 7- or 8 million right now. Doesn't look like we will ever get back to that number. And I keep hearing that we are expecting a recovery in 180 days now. If you guys know something, I would love to hear it. I think it will be much longer than that. So I think we have got a lot more choppy water to go through.

The other thing that I hear is that throughout your testimony, you are talking about companies and American companies. And I think that is one of the myths that America is suffering through right now. We are recognizing that we are globalizing our economy, and we still think of these companies that grew up in America as having some or should have some loyalty to Americans, and we are finding they have none. They are our worst enemy, and they are within us, okay, as far as our manufacturing sector is concerned. They contribute to the Chinese copying our products and selling them back to us, okay? So they are responsible for their 90-day Wall Street report and actually have no loyalty to America at all.

So it is probably going to be within our jobs to incentivize them to treat America as their home base just as China incentivizes its companies, India incentivizes its companies, but no one is incentivizing companies in America to stay home and take care of

our manufacturing base. And we are in great, great danger of losing the ability to compete in our defense industry, our automobile industry, our health care industry, making whether it is METRONICS, whether it is making hips, whether it is making valves for the heart. We are in great danger of that. And I think we need to look at our American industries that we think should be helping us and recognize that they are not, and they are not going to pay attention to the small manufacturer unless we force them to with incentives.

And I share your concern. I am very concerned, but I think America still has this idea that there are American companies out there that are loyal to American workers. That is not the case. They are loyal to a 90-day report, and they will do anything to make that report good to sustain their stock.

The other thing that we are faced with here is that the titans of industry who said they were committed to the free market, the first cold wind that blew, we found out they didn't believe it at all. They were here in Washington with their hand out wanting to partner with the Federal Government.

So we recognize how flexible we are in our principles, and I think we need to be just that flexible as small manufacturers, because they will throw us under the bus in a heartbeat for their 90-day report.

So I appreciate each and every one of you being here, and we have got a serious problem, but I don't think it is going to be over in 180 days.

Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chair.

I want to just highlight an article I read yesterday in Politico entitled ″Detroit Should Hear from Obama,″ by Jamal Simmons. In this article, Mr. Simmons mentions the plight of African American dealers and the challenges they face within this niche market. He states, ″African American auto dealers face a particular challenge because GM's plan to cut low-performing auto dealerships will hurt their small ranks significantly if there is not a plan to maintain dealer diversity. According to one dealer and several news reports, many of these businesses were set up in lower-income, higher-risk areas, which make them much more vulnerable in purely quantitative evaluation. Minority auto suppliers are in similar jeopardy.″

And I ask that we submit this article for the record.

[The information is included in the appendix.]

Ms. CLARKE. I strongly believe that minority-owned small businesses in the automotive industry are a very important part of this equation and important to a subsequent solution to this crisis. As spending decreases, I, like many others, fear that many of the supply diversity programs implemented by the bigger auto companies, like GM, are in jeopardy of being cut or severely downsized. Moreover, minority suppliers, in particular, tend to be highly leveraged business owners who are located in urban environments and often employ minority employees. Their investment permeates throughout urban communities, helping to sustain local economies. In the event that these niche small businesses have to close or downsize,

their investments in urban communities will disappear, creating a void in local support and employment.

As a representative of an immensely diverse urban district, I am concerned that minority manufacturers, suppliers, and even dealers will indeed be left out of this discussion and subsequently left out of this part of the solution.

In conclusion, it is my hope that in this discussion and many to follow, we, as a collective, can come up with solutions that will benefit all the small businesses that are the engines of employment in communities across this Nation, and who are affected or in danger of becoming affected by this automobile crisis.

So my question is to Mr. Smith and to Mr. Reed. Given my remarks and the fact that you represent over 700 manufacturing companies, Mr. Smith, in your view, have the current market conditions caused a disparate impact on minority suppliers?

Mr. SMITH. You know, the issue with all suppliers, minority, you know, especially, has been since—and we talk about, in manufacturing, the recession since 2000. Since 2000, over 5 million jobs in manufacturing have been lost, and currently we had a record pace this year. You know, Dave Bing, who is the new mayor of Detroit, has a business that is very similar to mine, and we have done business over the years together and helped each other out when we were in times of trouble. I know he has had his struggles in his business, and we certainly have had ours. I think we are all in this boat together.

I guess what I am saying is that unless we do something to make sure that the U.S. automotive manufacturing base is strong and can continue on both at GM, Ford, and Chrysler, minority dealers and minority programs for suppliers won't even matter. We need to make sure that these guys are healthy so they can continue on with the programs that they pioneered decades ago.

Ms. CLARKE. I hear you. I think certainly I believe in ″the rising tide lifts all ships.″ I just wanted to point out that there oftentimes is a disparate impact because these companies tend to be located in smaller urban environments where their consumer base is something that they rely on as well.

Mr. SMITH. Again, with the dealership network, I really can't comment. But in terms of the supplier industry, I think that it is that we have been pretty much in the same boat together.

Ms. CLARKE. Very well.

Thank you very much, Madam Chair.

I am sorry. Mr. Jones.

Mr. JONES. One of our customers is a minority-owned company in Atlanta, metro Atlanta. Two years ago they had 260 employees. They provide component parts for both Ford and GM: headrest components, seat components, door latches, hood latches, trunk latches. They are now down to 60 employees. They are in survival mode.

The 260 employees that they had were actually employees that had the ability and the capability to purchase the same products that the automobile manufacturers are building to sell. What we are seeing with the manufacturing decline in this country and when the automobile manufacturers and other major manufacturers are exporting jobs out of the country, then what, in fact, they

are doing is they are destroying the market that they had helped create at one time.

Chairwoman VELÁZQUEZ. Mr. Reed.

Mr. REED. I just wanted to make a point from our industry, the machine tooling and so on. I don't think there is any difference from one company to the next. I have seen nothing whatsoever. We are all hurting, and, quite frankly, that hasn't even entered into the discussion at all.

One of my companies is filled. I have a number of minorities. The first time I even thought about it was when you mentioned it. It makes no difference at this point.

I do think on the dealer's side, I can't count on that; but certainly the manufacturing sector of our folks, we are all in this together.

Thank you.

Chairwoman VELÁZQUEZ. There is a set of votes on the House floor, but before we adjourn, I would like to ask one question, a final question, to any of the witnesses whom I want to answer.

How far down the supply chain will the auto suppliers support programs have to be expanded for it to provide support for a company such as yours?

Mr. OVERTON. It has to go all the way down to tier 2, 3.

Mr. REED. If I can't get the product, it makes no difference. So you need to go the whole range. And the delta is obviously larger at the top going down.

Mr. OVERTON. That is why this 1 or 2 or 3 percent, that would solve the whole problem. Everybody could apply for that, and it would guarantee receivables. It is a quick answer and is simple.

Chairwoman VELÁZQUEZ. Mr. Graves, do you have any other questions?

So let me say in conclusion that the committee intends to work with the administration to make sure that the auto suppliers support program helps the foundation of the industry and will look at financing initiatives that could be able to support answers to the niche of the industry that you represent.

I ask unanimous consent that Members will have 5 days to submit a statement and supporting materials for the record. Without objection, so ordered.

Chairwoman VELÁZQUEZ. This hearing is now adjourned.

[Whereupon, at 11:30 a.m., the committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
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STATEMENT
Of the Honorable Nydia M. Velazquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: *"The Roles of Small Businesses in the Domestic Auto Industry"*
May 13, 2009

For decades, the auto industry was a symbol of American innovation. But in the past few years, a combination of poor management, costly obligations and dwindling profits has taken its toll. The resulting declines have done more than weaken the Big 3-- they have crippled the small business community. As the automakers fight to stay afloat, countless entrepreneurs have been caught in their wake.

All across the country, small suppliers are struggling. They are fighting to survive in an uncertain industry, and are suffering more than their corporate counterparts. This is a serious concern. These businesses not only employ millions of workers, but sustain the very industry we are trying to save. At the end of the day, strengthening and supporting small firms will be critical. Failure to do so will shrink the supplier base further, dealing a lethal blow to businesses like GM and Chrysler.

In today's hearing, we will discuss the current state of the auto industry, and examine the impact of its decline on small businesses.

Like most corporate giants, the automakers rely on entrepreneurs. The industry is sustained by a multi-tiered, nationwide network of parts providers. These businesses produce everything from carburetors to tire rubber, and the vast majority of them are small ventures. But don't let their size deceive you-- they account for literally millions of jobs.

Parts suppliers alone employ 3.2 million workers. But as the Big 3 continue to slide, an alarming number of small firms are following suit. In fact, experts predict half of the nation's auto suppliers will be shut down by 2012. Many have closed their doors already.

The impact of these bankruptcies is not isolated. When a small supplier goes under, it sparks a ripple effect-- one that resonates throughout the entire economy. On the most

basic level, we are talking about large scale job losses. Already, thousands of workers in related industries have been laid off. If this trend continues, thousands more may lose their jobs.

In the last few months, steps have been taken to shore up the big automakers. But despite these actions, little has been done to help small suppliers. If anything, efforts thus far have failed small businesses. That's a big mistake. Cutting entrepreneurs out of the process means more setbacks down the road, especially considering the end-goal of these measures--job retention.

Ultimately, we are trying to save jobs and stabilize our economy--not prop up an industry that has failed to keep pace with the times. Small suppliers are the businesses actively looking to adapt. It only makes sense to give them the tools to do so.

One of the greatest lessons of the financial crisis is that stability comes from the bottom up, not the top down. The automakers are no exception. It is critical that any restructuring accounts for small suppliers. Proposals to aid second tier manufacturers, for example, would go a long way. But regardless of how the auto overhaul takes place, one thing is certain-- it needs to be deep enough and comprehensive enough to reach small businesses. After all, that's the industry's foundation. That's where the jobs are, and that's our best bet for stabilizing and rebuilding.



Testimony of Carl Reed
President and CEO, Abbott Workholding Products, Inc.
Manhattan, Kansas
Before the
House Committee on Small Business
Hearing
May 13, 2009

"The Role of Small Business Suppliers and Manufacturers in the Domestic Auto Industry"

Madam Chairwoman, Members of the Committee, thank you for this opportunity to testify before you on the impact the American automakers' crisis is having on other small American manufacturers – as well as the urgent need for a fair distribution of temporary assistance to auto suppliers up and down the supply chain.

I am here both for myself, as the owner of a small manufacturing company, and as a member of the Board of Directors for AMT – The Association For Manufacturing Technology.

AMT represents more than 400 manufacturing technology providers located throughout the United States – including almost the entire universe of machine tool builders who manufacture in our country. Our members cover the full range of manufacturing – from design, automation, material cutting and forming, to workholding, cutting tools, assembly, inspection and testing, and communications and control. The overwhelming majority of our members are small businesses like mine.

Manufacturing technology provides the tools that enable production of all manufactured goods. These master tools of industry magnify the effort of individual workers and give an industrial nation the power to turn raw materials into the affordable, quality goods essential to today's society. In short, we make modern life possible.

Manufacturing technology provides the productive tools that power a growing, stable economy and a rising standard of living. We represent an industry with a proud history that dates back to the founding of our country, and today, we are recognized worldwide for the advanced manufacturing technology we produce for a wide range of industries, including the automotive industry. These tools make possible modern communications, affordable agricultural products, efficient transportation, innovative medical procedures, space exploration, and the everyday conveniences we take for granted. They also create the means to provide an effective national defense.

About two-thirds of AMT's members produce the manufacturing technology present in every tier of the automotive production chain. We make the products that the Detroit auto companies use to assemble and test their products. We supply the products that Dana, Eaton and other Tier 1 producers use to build chassis, engines, and body panels. And we provide the products used to produce wheel rims, pistons, bearings, and other car components.

Manufacturing technology suppliers are a small – yet critical – component to the production of next generation automobiles. Without us, you can't manufacture an "American-made" car. But unless steps are taken immediately to help the small manufacturers that rely heavily on the U.S. automakers as customers, many of them, already on life support, will take their last breaths. That will set off a domino effect that will reach beyond General Motors' and Chrysler's suppliers to Ford and the transplants – and even further to the wide range of industries, such as aerospace – companies that AMT's members also supply. If that happens, tens of thousands of American jobs in the auto sector alone will be lost, and our country will lose the ability to produce the new

fuel-efficient cars of the future. Under that scenario, "Detroit's Big Three" and "America's Automobile Industry" will become sad chapters in an American history book.

My own company is comparatively small. We have 33 employees in Kansas and nearly 50 workers at our foundry in Arizona – and our ties to U.S. automakers are very indirect. We essentially are at the bottom of the supply chain, producing products that others use to produce products that eventually end up with the automakers. But even we, at the moment, are seeing a drop of around 20 percent of our business because of the turmoil at the top of that chain. And those AMT companies that are more directly, or absolutely, tied to Detroit are seeing a near-collapse of their customer base – something that has nearly dried up any hope of obtaining credit – for whatever little credit still exists – and that has led to deep fears that many of these companies may not survive.

Structured Chapter 11 Bankruptcy

Adding to these fears is the prospect that GM will be forced into bankruptcy right on the heels of Chrysler's filing – and whether that move would put the final nail in the coffin for countless supplier companies. Suppliers did not anticipate that both companies would shut down production for three months or perhaps more.

Before this crisis began, auto suppliers accounted for over 600,000 of the more than two million American jobs tied to the auto industry. That number continues to decline, with layoffs mounting as companies struggle to stay afloat. Some companies have been unable to survive, and those workers will not be called back to work. Since last fall, the manufacturing technology industry has lost two to three companies per month to the economic crisis. Most of those shuttered small businesses were linked to the auto industry.

Some will argue that suppliers should have been better prepared for this crisis, just as they argue that Detroit's Big Three should have had a business plan in place to deal with a sudden and dramatic decline in orders the likes of which have never before been felt. However, so many small businesses don't have the capability to strategically plan and adjust to a 50 percent drop in business volumes in just over a 90-day period (October 2008 to January 2009). This type of breakdown in our financial services sector has never before been seen in our global competitive market.

I understand the Administration is strongly favoring facilitating a structured Chapter 11 bankruptcy for General Motors. But before going down that road, I would strongly urge Congress and the Administration to carefully consider the consequences to the entire automotive supply chain before making a final decision. Another bankruptcy would be a devastating blow to an already weakened manufacturing sector. Many more manufacturing technology suppliers would not survive, taking with them the skills and the trained workers necessary for a world-class automobile industry in America.

Consider the direct effect of a GM Chapter 11 bankruptcy on AMT members, the manufacturing technology suppliers. These companies supply manufacturing systems and machines that can range in value from a few hundred thousand dollars to as high as $20 million or more. The design and manufacturing duration of these systems and machines, from order to shipment, can range anywhere from 25 weeks to as much as a year. The payment terms for these systems are generally 90% at shipment and 10% following a comprehensive acceptance runoff at the customer facility. During the lifetime of the contract, the supplier is forced to borrow large amounts to finance this work in progress (WIP). As an example, one AMT member alone currently has a WIP of over $12 million directly from GM orders and an additional $7 million for product shipping to Tier 1 suppliers of GM. That is typical for companies in our industry.

A recent survey of AMT members suggests that our manufacturing technology suppliers have between $1.2 and $1.6 billion currently tied up with the car companies in the form of contracts, WIPs, and receivables, averaging about $7 million per supplier. If GM files Chapter 11 with no special structure to protect AMT suppliers, many of these suppliers will likely be forced into

bankruptcy as well. Should GM reject current contracts for products ordered but no longer needed because of declining auto sales and discontinued models, the consequences would be devastating. The salvage value for these products is pennies on the dollar, representing millions of dollars lost for suppliers. Voided contracts coupled with the cancellation of amounts due for open invoices at the time of the GM filing would be more than most of these companies could absorb.

Products already in use on the factory floor present problems as well. Once any order is shipped, it typically requires service, parts and applications engineering to maintain it throughout its useful life. Our companies cannot afford to continue to support the manufacturing process of companies that pose a financial risk. If we are forced to stop the flow of these services because of the increasing risk of not being paid, production will come to a halt throughout the supply chain.

In the wake of Chrysler's bankruptcy and a possible GM filing on the horizon, auto suppliers desperately need a mechanism for guaranteeing receivables, changing payment schedules for work in progress, and making credit available to the entire production chain, because the health and viability of each link in the chain are essential to the survival of the whole automotive industry. A recent announcement that GM will seek protection for its critical suppliers in the event of a bankruptcy is greeted with more skepticism than relief by suppliers in my industry, because, thus far, our members have not been recognized as critical by the car companies that depend on us to assemble and test their products.

U.S. Treasury Auto Supplier Support Program

Madam Chairwoman, on behalf of AMT, and myself, I applaud the President's Auto Task Force for recognizing the role that suppliers play in the ultimate success of America's automobile industry. The recent launch of Treasury's auto supplier support program is an important first step in protecting automotive suppliers, especially in the event of a Chapter 11 bankruptcy filing. The $5 billion program is meant to stem the imminent bankruptcies of many Tier 1 suppliers as delayed payments and cancelled orders mount. But while the program will help many component parts suppliers, it does not reach nearly far enough across and down the supply chain.

It is critical that manufacturing technology suppliers like AMT's members be able to take advantage of the supplier support program where payments are guaranteed, and we are able to sell our receivables. But that is not happening. Inexplicably, AMT Tier 1 suppliers have been left out of the program. The car companies have interpreted the program as protection for companies who supply them on a flow basis rather than on a transaction basis. This leaves out AMT suppliers whose commitments come one transaction at a time – amounting to essentially an "all or nothing" agreement with the auto companies. There is no opportunity to adjust shipments based on health of customers or payment integrity as with the flow suppliers. There is only one opportunity and that gamble can be large.

I cannot believe that this is what the President's Auto Task Force had in mind when it created this program – but it is how the carmakers have chosen to administer it. And that, simply, makes no sense. You cannot have a viable U.S. auto industry if you only support one segment of the supply chain. Car parts suppliers are no more critical to the final product than are suppliers who provide the manufacturing technology to bring all the parts together. Yet manufacturing technology suppliers are not deemed "critical suppliers" for this program by the automakers – which explains my skepticism that we would be viewed as critical suppliers in a Chapter 11 filing if that determination is left up to the car companies.

Manufacturing technology suppliers are critical to the production supply chain. They are found in every tier of it. AMT Tier 1 suppliers face many of the same issues as the Tier 1 component suppliers – and I would argue that they are even more vulnerable. The working capital needed to fill even one order from the car companies or Tier 1 suppliers can run in the millions of dollars. AMT members are making decisions on whether to accept, finish, or ship orders on a daily basis, because we can't afford a cancellation. Delays and cancellations have already forced the AMT

suppliers to stretch out their payment terms to their component supplier base. If our member's are ultimately forced out of business, many component supplier bankruptcies will follow.

Moreover, Tier 2 and Tier 3 suppliers continue to be overlooked in auto industry restructuring programs. The supplier support program, administered up and down the supply chain, could help companies that may not otherwise weather this storm. Some of these companies, like the AMT Tier 1 suppliers, are critical suppliers. Without them, there will be no next generation, fuel efficient cars in America's future.

Without them, in fact, a manufacturing base much broader than just the auto industry would be affected.

Most of AMT's member companies are small business suppliers that support not only the auto industry but a significant portion of our entire manufacturing economy. Small manufacturing businesses account for 59 percent of the value-added in the manufacturing sector and 72 percent of the employment in manufacturing. The entire manufacturing sector rests in large part on these small suppliers, and it is these companies that have the fewest resources to draw upon when the business cycle spirals downward. Their primary resource is credit.

Tight Credit - SBA's 7(a) Loan Program

Unfortunately for many small automobile suppliers, banks are eliminating lines of credit, significantly raising rates and, in extreme cases, threatening liquidation, or seizing receivables, because of these companies' ties to the auto industry. While the situation is dire for AMT's members, it is just as bad for our customers who can't get a loan for the products to fulfill existing and new contracts. As a result, nearly 60% of our membership have or will begin self-financing sales of their products – a recourse that obviously can't continue for very long. These companies simply don't have the resources.

Congress and the Administration should move immediately to loosen credit to small business throughout the manufacturing sector, but particularly to those companies with ties to the auto industry. We urge you to make certain that credit is flowing *through* the banking system, or around it, rather than be supplied to, but hoarded, by banks.

The Small Business Administration's 7(a) loan program is one area of opportunity for small business auto suppliers in these troubled times. AMT applauds the efforts of Chairwoman Velázquez, the Committee, and the Administration in expanding the SBA's 7(a) loan program as part of the American Recovery and Reinvestment Act of 2009 (ARRA). However, higher guarantees and lower fees alone will not enable many small AMT suppliers to obtain urgently needed funds to stay in business and preserve jobs.

Unfortunately, small manufacturing technology suppliers frequently find that they do not qualify under the current terms of the program. Given the extreme downturn in the economy, most small businesses, especially those tied to the auto industry, have suffered a dramatic decline in business and would not, in the near term, be able to meet normal credit standards. They simply do not have any cash flow under current circumstances. Therefore, AMT urges Congress to reprioritize the metrics by which decisions to provide 7(a) loans are made – away from cash flow as the primary consideration. We suggest that they should be shifted to other elements that more fairly judge the long-term viability of a company, factors such as backlogs, assets, employment levels, and historic performance. Those would be fairer criteria by which to judge the long-term viability of most small businesses.

The Future – The Manufacturing Technology Industry Should Not be Overlooked

Looking ahead, I urge members of this Committee, the entire Congress, and the Administration not to overlook manufacturing technology suppliers up and down the automotive supply chain as new programs are developed to speed the manufacture of the fuel-efficient, environmentally friendly cars of the future. Programs like the Department of Energy's Advanced Technology

Vehicle Manufacturing loan program are out of reach for most of AMT's members. Not only does the long and complicated application process discourage small automotive-related companies from applying, but the program's focus on the upper tier of the supply chain excludes most AMT members from eligibility. Even though advanced technology vehicles cannot be produced without incorporating the latest developments in manufacturing technology, ironically, the manufacturing technology producers are not eligible under the current program. This current standard defies logic and needs to be revised.

The new Advanced Energy Projects Investment Tax Credit established by the ARRA is another example where AMT suppliers could once again be overlooked. While income tax credits for production of energy from renewable sources have existed for several years, no previous tax credits specifically encouraged development of a domestic manufacturing base to support the renewable energy industry. The 30% investment tax credit for facilities engaged in the manufacture of advanced energy property is available only for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy, through a competitive bidding process. These projects re-equip, expand, or establish manufacturing facilities used in the production of renewable energy. Presently, it is unclear whether manufacturing technology producers will be eligible for the tax credit until Treasury releases the program regulations. While it is clearly congressional intent that the credit apply at any stage of the value chain, past experience has taught us that our inclusion in these types of programs should not be taken for granted.

Conclusion

As the automobile industry attempts to recover and rebuild, it will turn to manufacturing technology suppliers for help in producing globally recognized, next generation products. So, too, will the broad range of other industries we serve, such as medical equipment, pharmaceutical, construction, farming, and renewable energy, to name just a few. Yet these non-automotive industries will all suffer drastically if the auto industry collapses and if that collapse also brings about the collapse of manufacturing technology suppliers.

Even more important, however, are U.S. manufacturing technology suppliers' ties to our national defense. If we are not careful, the auto industry as well as most other manufacturing industries in America will have no choice but to look to foreign sources to provide the innovative solutions for which America has always been known. The competitive edge that U.S. manufacturers have enjoyed from "Yankee Ingenuity" will be forever lost – and, worse, America will be risking dependence on foreign sources to supply our national security infrastructure.

Madame Chairwoman, stabilizing the automotive industry and the industries up and down the supply chain is critical to our economy and to our defense industrial base. Immediate action is necessary in order to get the U.S. auto industry back on track, stabilize the crippled auto supplier base, and save hundreds of thousands of American jobs. And that means helping ensure the survival of all the tiers in the supply chain, not just the top one.

As you know, America's small businesses have proven more nimble at adapting to changing market needs. We can move America's automobile industry forward, but not without help. Every member of AMT manufactures products in the United States, and our products are located in factories around the world. Each of our companies is fiercely competitive and determined to ensure that American manufacturing technology remains preeminent. Our skilled workers are the real drivers of technology for the cars of tomorrow. Moreover, it is our engineers who will help bring breakthrough technologies to our auto companies, so that America can compete as world-class leaders once again.

But these are the companies and the jobs that we stand to lose if the crisis in Detroit is mishandled. It is my hope that the Committee will become actively involved to ensure that small business and manufacturing technology are not forgotten in the effort to save the auto industry.

Thank you.



Statement
of the
Motor & Equipment Manufacturers Association

ABOUT: Impact of the Economic Challenges Facing U.S. Automakers on Small Suppliers

TO: United States House of Representatives
Committee on Small Business

BY: Wes Smith, President
E&E Manufacturing Co., Inc.

DATE: May 13, 2009

BEFORE THE UNITED STATES OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

IMPACT OF THE ECONOMIC CHALLENGES FACING U.S. AUTOMAKERS ON SMALL SUPPLIERS

TESTIMONY OF WES SMITH
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ON BEHALF OF
MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

MAY 13, 2009

The Motor & Equipment Manufacturers Association (MEMA) represents nearly 700 companies that manufacture motor vehicle parts for use in the light vehicle and heavy duty original equipment and aftermarket industries. Motor vehicle parts suppliers are the nation's largest manufacturing sector, directly employing 685,892 U.S. workers and contributing to over 3.2 million jobs across the country. The motor vehicle parts supplier industry is a leader in developing technologies critical to making today's vehicles safer and more fuel efficient and is investing in product development to help meet future consumer demand. Suppliers also manufacture the aftermarket products necessary to repair and maintain over 247 million cars and trucks on the road today. *(See Appendix A)*

Collectively, U.S. motor vehicle parts suppliers are a $388 billion industry, comprising three distinct segments: original equipment, heavy duty, and aftermarket.

E&E Manufacturing began business in Plymouth, Michigan 45 years ago. Since that time it has grown its footprint from 5,000 square feet to 435,000 square feet and has grown its capabilities to become a full service supplier of highly engineered stamped metal solutions primarily to the auto industry, with yearly sales reaching $100 million. E&E has been a pioneer in the field of drawn metal fasteners and related products, holding seven patents, with several pending applications. Products influenced by E&E designs can be found on a great many cars on America's highways.

Despite the significant challenges facing the motor vehicle supplier industry, very little assistance has been focused on small manufacturers. We urge the Committee to work with others to craft specific policies to address the needs of these suppliers.

A. THE NEEDS OF THE SMALL SUPPLIER

The supplier industry is populated with small manufacturers providing product and innovation to larger manufacturers. These manufacturers are faced with substantial capital costs including research and development, tooling, plant and equipment, raw materials, and work-in-process inventory. In addition, suppliers carry significant employment costs related to training and

health care. At the same time, since vehicle demand has fallen off significantly, all light and heavy-duty original equipment suppliers are facing unprecedented reduced production schedules. Small suppliers have not been able to take advantage of the vast majority of financial assistance provided to the motor vehicle industry leaving many with no choice but to close their facilities. Since every supplier job impacts almost five other jobs, these closures impact workers, families, and communities nationwide. Small suppliers are essential to the nation's economy and the stability of the motor vehicle industry. Assistance targeted to these manufacturers is critical.

B. FINANCIAL STATE OF SUPPLIER INDUSTRY

Heavy Duty Suppliers

For 27 consecutive months, the U.S. heavy duty commercial vehicle industry has been in recession. Current Class 8 vehicle (tractor-trailer type) sales are down 65 percent since EPA 2007 regulations were enacted. The current year Class 8 sales pace is running at 105,000 units; 51 percent behind 2008. The expected recovery in 2008 was quashed by a dramatic reduction in truckable economic activity; the main driver of new commercial vehicle sales. While EPA 2010 regulations were expected to drive a pre-buy starting late in 2008, none of the market analysts are currently predicting a significant increase in production during this year.

Although there is not as much attention paid to this sector, heavy duty suppliers are witnessing unprecedented challenges. Eighty-five percent of our association's heavy duty members have reported declining sales and less than half are able to meet financial obligations in a timely manner. Access to operating capital and build rates that are well below the break-even point of nearly all heavy duty suppliers place many companies in serious jeopardy of failure.

Light Vehicle Market

The continuing financial crisis is the result of the dramatic and rapid drop off in industry volumes, the nearly complete freeze on new capital into automotive, and the inherent risk caused by the threat of GM and Chrysler bankruptcies. For small suppliers, the drop off in industry volumes can actually be greater, the credit freeze tighter, and the customer risk more significant. In fact, industry financial surveys from the beginning of the year showed that over 60 percent of the association members noted that they faced significant financial distress in 2009 and 75 percent of those in potential distress are small suppliers – those suppliers with revenues under $250 million.

1. Industry Volumes

North American vehicle production was off 52 percent year-over-year in the first quarter of 2009. For 2009, forecasters estimated production would decline 35 percent to 8.2 million units from 12.7 million units in 2008. Negative volume changes can be greater for smaller suppliers because they are on the very end of the production bull whip. Inventories are drawn down increasingly throughout the entire supply chain as the larger firms cut their production orders first and each successive layer of the supply chain cut their production schedules further to protect increasingly narrower margins. This condition will only be exacerbated over the next 13 weeks as Chrysler shuts down U.S. plants during its bankruptcy proceedings, as GM takes out an additional 190,000 units out of already weak second and third quarter production schedules, and as GM proceeds with rolling shutdowns this summer.

According to Grant Thornton, a leading turnaround firm, they believe that given the continuing decline in sales and risk of on-going OEM bankruptcy activity there could be a significant reduction in vehicle production. "If such an event were to occur without adequate notice, planning and financial support a significant number of suppliers, whose balance sheets are already highly overleveraged and who sustainability remains highly fragile, would be forced out of business through sale, bankruptcy, or liquidation. The government's offer of $5B in selective financial aid to GM and Chrysler in our view is simply not enough to sustain the supply base, especially regarding the high technology and critical component linchpin suppliers critical to OEM production."

2. Credit Markets

Given the auto industry's significant capital requirements and the general mismatch of funding, steady access to lines of credit and asset-backed loans is essential for the survival of the supply base. For example, it is not unreasonable for a small supplier to be called on for the investment of $2 to $4 million to assist with the design, engineering and tooling for a component on a new vehicle program. However, typically suppliers receive payment for this investment after the launch of production through the piece price of the component. The supplier might not begin receiving any cash flow on their investment for 12 to 24 months and will not be completely reimbursed until the product ends production in another 36 to 60 months.

In a March 2009, association survey of its membership, it found that nearly 40 percent of the companies identifying commercial banks as their lead source of funding characterized their banker as "aggressively exiting" the automotive industry (this compares to only 10 percent that noted their banker as being very engaged with them). Small suppliers have little leverage with the large banking institutions – our loan exposure on any individual loan is very small for a bank and our potential revenue opportunity across all of a bank's other services – cash management, currency exchange, etc. – is also low. This allows a bank to more easily walk away from our business and that leads to the third significant risk for smaller suppliers.

3. Customer Risk

Frequently, smaller suppliers are two or three levels removed from the final OEM customer. Decisions made at the top by OEMs influence individual decisions down through the entire supply chain. Without a doubt there is tremendous uncertainty where Chrysler and GM will be on the other side of their restructuring. What global competitive position they will hold? What sales market shares they will control? What vehicle programs they will produce? Ford, GM and Chrysler are on a path to significantly reduce their supply bases. For a small supplier, down in the chain, the uncertainty of not knowing what vehicles will be produced or which major first tier suppliers will survive equate to a significant increase in risk.

The financial condition of the supplier base is as precarious as it has ever been. The Federal Reserve Board of Governors reports that in March the entire U.S. supply base was running at 52 percent capacity utilization. Given the high fixed costs of the industry, suppliers typically target at least 70 percent, if not even 80 percent, just to break even.

D. FINANCIAL ASSISTANCE AVAILABLE TO INDUSTRY

Currently there are a number of Federal programs targeted at the automotive supplier sector. However, a number of the programs do come up short given the significant melt down in the

industry, in general, and given the specialized needs of smaller suppliers, in particular. In addition, none of these programs have addressed the needs of the heavy duty or aftermarket suppliers.

1. $5B Auto Supplier Support Program

The Auto Supplier Support Program at the U.S. Treasury was designed to provide protection against the bankruptcy risk of GM and Chrysler and immediate liquidity. It offered the guarantee of receivables that would be paid on terms (typically 45 to 55 days) and immediate payment options. Of course, the program was not fully operational when Chrysler filed for Chapter 11, which left suppliers significantly exposed. In addition, the program targeted only the direct, first tier suppliers of GM and Chrysler. As such, smaller suppliers in financial distress are completely dependent upon their first tier customer to provide financial assistance down through the supply chain. Bank restrictions and loan covenants prevented many eligible suppliers from participating in the program.

2. Advanced Technology Vehicle Manufacturing Incentive Program (Sec. 136)

Section 136 of the Energy Independence and Security Act of 2007 authorized the Secretary of Energy to make grants and direct loans to eligible applicants for projects that reequip, expand, or establish manufacturing facilities in the United States to produce qualified advanced technology vehicles or qualifying components as well as for the engineering integration costs associated with such projects. The grant program had a set aside for small manufacturers. The program established by Section 136 is referred to as the Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP).

The FY09 Continuing Resolution authorized up to $25 billion in direct loans to eligible applicants but did not fund the grant program. The Department of Energy (DOE) issued an interim final rule to establish regulations necessary to implement the loan and grant programs authorized by Section 136. Since the issuance of the rule, the DOE has received over 100 applications. MEMA understands that a majority of the applicants were component manufacturers. Of those component manufacturers, many of the applicants were smaller companies asking for monetarily smaller loan amounts, as compared to larger component manufacturer applicants.

While some of the projects from the smaller applicants may have qualifying components and interesting projects, the ATVMIP is probably not the most conducive or beneficial avenue for them to take, but, at the same time, is one of a very few opportunities currently available. These smaller companies are simply trying to find resources to help their advanced technology vehicle and/or qualifying component project(s) evolve.

3. Small Business Administration (SBA) Program

The Small Business Administration (SBA) programs have been at the foundation of small supplier support for decades. However, the SBA loan programs are limited to only $2 million loans. Since suppliers are expected to fund a great deal of the research and development in the projects, the net worth and loan amounts have limited utility to our industry. Given the scale on which the auto industry operates, this limit is too low to help many suppliers. A recent OESA survey indicated that a $3.5 to $10 million level would be far more valuable for their financial future. Although small manufacturers should be able to turn to the SBA for loans, the current system is simply not designed to meet the needs of manufacturers with substantial raw material, research, and development costs.

4. U.S. Department of Agriculture Rural Development Loan Guarantees

The U.S. Department of Agriculture (USDA) Rural Development program can guarantee quality loans made by private lenders to business and industry involving manufacturing, wholesale, retail and services. Projects must involve the creation and/or saving of jobs. The purpose need not be agriculturally related. Loan purposes can include real estate, machinery and equipment, or term working capital. The USDA provides loan guarantees for manufacturers in rural communities. However, a facility must be located in a community that can not exceed 50,000 in population. These programs will have limited applicability to suppliers.

E. CONCLUSION AND RECOMMENDATIONS

Certainly, motor vehicle suppliers are feeling the brunt of the current downturn and massive restructuring in the industry. Nonetheless, there will be an auto industry on the other side of this major recession, the Chrysler bankruptcy, and GM restructuring. However, action needs to be taken that assures the industry's jobs and innovation will survive too. Suppliers are responsible for a growing share of the cost of innovation. Even so all suppliers, particularly the smaller manufacturers, have been inadequately assisted during these challenging times. Many of the structural issues facing the small suppliers will remain even once production volumes recover. Capital will likely be difficult to raise, the capital requirements will increase, and the knowledge base needed to support advancing technologies will accelerate.

Therefore, MEMA urges the Committee to address the needs of small suppliers by:

(1) **Authorizing a motor vehicle supplier program within the SBA to provide necessary funding for small suppliers;**

(2) **Supporting a simple-to-administer and aggressive new vehicle sales incentive program;**

(3) **Creating incentives for the purchase of new technology on all motor vehicles;**

(4) **Expanding retooling efforts to include small suppliers and allow for a wide range of retooling efforts;**

(5) **Encouraging the banking industry to resume lending money to motor vehicle suppliers once the Chrysler and GM situation is resolved; and**

(6) **Addressing training and other initiatives.**

In addition, MEMA urges the Committee to support:

(1) **Legislation to help automotive suppliers manage or reduce health care costs; and**

(2) **Establishing a mandatory national vehicle inspection program or a voucher program that permits consumers to get their vehicle inspected and serviced.**

We will be pleased to work with the Committee members on these initiatives.

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APPENDIX A

THE SUPPLIER INDUSTRY

Motor & Equipment Manufacturers Association

MEMA represents its members through three affiliate associations: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), and Original Equipment Suppliers Association (OESA).

Automotive Aftermarket Suppliers

U.S. aftermarket suppliers support the light-, medium-, and heavy-duty vehicle markets. In addition to hundreds of companies that manufacture only aftermarket products, a large number of original equipment suppliers also produce products used to service the vehicle following the sale. The result is an aftermarket industry that encompasses nearly 12,000 manufacturing locations supplying motor vehicle parts, chemicals, tools, equipment and accessories.

The aftermarket relies on virtually all of the 4 million employees who, directly or indirectly, owe their jobs to the supplier community. Employees work for manufacturers, remanufacturers, distributors, retailers, and installers that are essential to repair and maintain over 247 million cars and trucks that will travel a total of nearly 3 trillion miles annually, the equivalent of 6 million round trips to the moon. Simply stated, the aftermarket affords Americans the mobility to work, shop, and visit friends and family away from home.

Most aftermarket repair work takes place in a vehicle manufacturer's dealership service facility or an independent repair shop. There is also a strong "do-it-yourself" market – individuals who perform their own vehicle maintenance. Considering how many oil changes, brake jobs, batteries, filters, hoses, belts, and tires a vehicle requires in its lifetime, it is easy to see why the $244 billion aftermarket segment is steadily growing.

The aftermarket industry also takes great pride in its leadership role by supplying solutions to our energy, environmental, and safety needs. Proper maintenance and repair performed by the aftermarket can improve a vehicle's fuel efficiency by as much as 40%. Aftermarket innovations such as energy-saving halogen light bulbs, tire pressure monitoring systems, improved fuel line technologies, and biodegradable lubricants, to name a few, actually save consumers gas, reduce CO2 emissions into the atmosphere, and utilize renewable, organic materials instead of fossil fuels. Moreover, remanufacturing saves enough raw materials to fill a train over 1800 miles long by utilizing parts that would otherwise be sent to landfills and saves 8.4 million tons of CO2 emissions from entering the atmosphere. Indeed, automotive recycling is 69 percent of all U.S. recycling.

In addition to energy and environmental leadership, aftermarket products such as extended-life brake friction products, LED lighting technologies, and back up detection sensors and camera systems enhance the safety of the driving public and the performance of our vehicles, while protecting American pedestrians and communities.

Heavy Duty Suppliers

Heavy duty suppliers provide the original equipment (OE) parts used to manufacture commercial vehicles and the aftermarket replacement parts needed to maintain the vehicles for service and repair. Heavy duty suppliers are also responsible for developing most of the advanced technologies that make these vehicles more safe, more fuel efficient, and have lower emissions. There are currently over 500 U.S. suppliers in the heavy duty commercial vehicle supplier industry. These companies provide most OE parts to the four major U.S. truck manufacturers — PACCAR, Navistar, Volvo/Mack, and Freightliner/Daimler Truck. The vast majority of these suppliers — over 85 percent — are considered small businesses.

Due to vehicle size, weight, lower volumes, and shipping costs, most heavy duty vehicle and parts manufacturing remains in the United States. This industry is dependent on a healthy economy generating freight ton-miles demand. Supplier success is impacted by economic cycles, changing vehicle manufacturer demands, production schedules, tight credit markets, and new diesel emission-reduction requirements, which have caused both spikes and steep drops in demand. Class 6, 7 and 8 trucks have seen an increase in cost of about $25,000 per vehicle since the initial stages of the EPA three-phase "clean-diesel" regulations were enacted in 2002. This drives truck owners to avoid the cost of the next generation vehicles with a pre-buy on new trucks, causing a spike and cliff in sales patterns.

Light Vehicle Original Equipment (OE) Suppliers

Original equipment suppliers design, engineer, and manufacture parts required for the assembly of passenger cars and light trucks. OE suppliers interact directly with vehicle manufacturers, and their success is tied directly to the number of domestically produced vehicles. Each year, more than 300 new light vehicle models are sold in the U.S. – and each model contains 8,000 to 12,000 parts or components.

The auto supply base is one of the most intricate and multifaceted industrial complexes. On one side is the vehicle manufacturers – a dozen or so major original equipment manufacturers (OEMs) that dominate world production with sales measured in tens to hundreds of billions of dollars. On the other side are a dozen or so major material suppliers – the steel, aluminum and plastics providers – that also have sales measured in the tens of billions of dollars. In between are some 3,000 suppliers that produce the 10,000 parts that make up every passenger car and truck.

For North America, supplier sales range from $1 million to $11 - $12 billion. The distribution of those 3,000 suppliers is in the shape of a pyramid with two-thirds of the supply base having revenues under $250 million, the typical upper limit of a small automotive supplier. Mid-size suppliers tend to range from $300 to $600 million in revenue. The top 100 suppliers have North American revenues over $400 million. Because of the significant concentration of sales in the largest suppliers, the industry considers a "small" supplier to be under $250 million in sales. The majority of these small suppliers has under $125 million in sales and employs 250 to 500 employees. A $10 million supplier would be considered exceedingly small, and might represent a specialty tool shop of a fixture supplier.

The suppliers that make up this pyramid are mutually dependent upon one another. To illustrate the point, Supplier "A" can directly compete against Supplier "B" on one vehicle program and Supplier "A" can also act as a supplier or customer to Supplier "B" on another vehicle program. The OEMs and the suppliers are also mutually dependent. For example, 51 percent of GM's suppliers are also in Ford's supply base. By revenue dollars, the interdependency is even more dramatic — 90 percent of the dollar amount that GM spends with suppliers is with suppliers that also supply Ford.

Motor vehicle parts suppliers are responsible for more than two-thirds of the value of a new vehicle. In 2006, suppliers were responsible for nearly 30 percent of the total $16.6 billion automotive research and development investment. Suppliers address a range of technologies on a daily basis and provide much of the intellectual capital required for the design, testing, and engineering of new parts and systems.

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Written Testimony before the
House Committee on Small Business
delivered by
Mr. Ron Overton
CEO, Overton Industries
On behalf of the
National Tooling and Machining Association and Precision Metalforming Association

May 13, 2009

Madam Chair, Ranking Member Graves, members of the Committee, thank you for the opportunity to testify today. My name is Ron Overton, CEO of Overton Industries based in Mooresville, Indiana. In addition to my role overseeing day-to-day operations of our tool and die manufacturing business, I also serve as the current Chairman of the National Tooling and Machining Association (NTMA) which has partnered with the Precision Metalforming Association (PMA) in Washington to speak with OneVoice on behalf of small-middle-market manufacturers including thousands of North American automotive suppliers.

About Overton Industries

My father founded Overton & Sons Tool and Die in 1968 and it remains a family-owned company located in a quiet community in Central Indiana. I am proud to say that a third generation in our family currently works at Overton and weathering the current economic crisis is more critical than ever if I hope to pass the company down to a fourth generation of manufacturers.

Today we have 84 employees, down considerably from past years. Of our company business, roughly 65 percent is manufacturing tooling, plastic injection molds, and other products for exhaust systems, shocks and struts, and interior body panels supplied to the automotive industry. Due to instability in the automobile sector, we have made a conscious decision to reduce our work in this industry from a high of 95 percent in 2001. While we do not ship directly to Original Equipment (OE) automotive manufacturers, we primarily serve the General Motors, Chrysler, and Ford supply chains. Without proper tooling and component manufacturers like Overton Industries, the U.S. cannot produce vehicles.

State of Downstream Automotive Suppliers

Unfortunately, in the last several months, I have spent more time in meetings with the White House Automotive Task Force, General Motors, Tier 1 suppliers, and others rather than running our family business. In my 30 years in this industry, these times are by far the most dire for the automotive sector and particularly the thousands of small-middle-market suppliers around the country. I am saddened to hear that some experts believe that possibly 30 percent of these small companies will not exist one year from now unless the U.S. government takes additional steps to

support not only the automotive manufacturers and large Tier 1 companies but also downstream suppliers.

The Chrysler bankruptcy is only the first step in a long recovery process and I believe that the double-hit of Chrysler's "duration of bankruptcy" shutdown that began May 4 and GM's removal of 170,000 vehicles from their build nine-week shutdown of most of their assembly operations that also began May 4, is already providing a glimpse of what could happen to the supply chain in the event GM files for Chapter 11. The greatest risk to companies like ours is if a large Tier 1 shuts its doors. At this time, Overton Industries has several million dollars in outstanding receivables from jobs for GM and Chrysler through Tier 1 companies. Tool builders like us must expend cash for steel, labor and machine costs months or years in advance of payment for the die or mold we build, and then we have to wait until the production part approval process (PPAP) on the parts or assemblies made with our tools is completed, before being paid.

By way of background, a tooling company like Overton Industries manufactures tools, dies, molds and fixtures used to stamp, mold or assemble the parts and components necessary to build a vehicle. The business relationship is that GM, for example, contracts with a Tier 1 supplier for major assemblies, like a completed dashboard, which they deliver to a GM assembly line. The Tier 1 supplier, in turn, contracts with tooling suppliers to build the tools they need to make parts and assemblies. It may take from 6 to 12 months or more to build all the required tooling. During this period, all of our costs for steel, labor and machine time are considered "work in progress" and we have to carry all these costs as direct costs. When the tool is complete, the parts made from that tool must be "approved" through the PPAP process – which typically is not completed until up to 18 months from the time we first received the contract to build the tool. It is only at this point that we can actually invoice our tooling cost to the Tier 1 supplier – and we normally have to provide 60-day payment terms. In the current environment, these accounts receivables remain open for a longer period of time than ever before. Members of the NTMA report that payments from Tier 1 suppliers can now take over 180 days despite a recent survey that shows GM is paying the Tier 1 company on average within 58 days and Chrysler within 55 days for the tooling work businesses like ours provide. If this trend continues, I fear the experts are correct, at least 30 percent of our industry will shut down and with it the foundation of the American automotive industry.

In the past, our company would participate in the open-ended PPAP approval and payment process where, as I have described, the tooling supplier is often not paid for over 18 months from when we start building the tool. Overton Industries stopped accepting open-ended PPAP terms two years ago, and while we have lost business as a result, we could no longer remain globally competitive under those terms – not knowing when or if we will receive payment. This contrasts sharply with our overseas competitors, which we have confirmed receive progress payments and have received at least 90 percent of their payments before the product leaves their shores for the U.S. How can small-middle-market companies like ours continue manufacturing in America under the current terms?

In the current environment, a Tier 1 supplier has little incentive to expedite payment to a downstream manufacturer. Recently, members of NTMA and PMA have begun receiving notices

from their customers that the Tier 1 wants to expand payment terms to 90, 120 or even 180 days. Some of these companies are part of the Supplier Support Program funded under the Troubled Assets Relief Program (TARP). In providing relief to GM and Chrysler, the federal government worked with the vehicle manufacturers to establish a critical venders program, under which a supplier that ships directly to either company is eligible to guarantee their receivables and receive expedited payments. Under the well-intentioned program, the government assumed that payments to Tier 1 companies would "trickle down" to downstream suppliers. The government should help open the faucet because the only thing trickling down right now are pink slips.

Access to Credit and Insurance for Tier 2 and 3 Suppliers

Failure of payment to downstream suppliers in a reasonable amount of time severely impacts the cash flow of small-middle-market automotive suppliers. As a result, many companies have reported that few if any financial institutions will extend credit to their businesses. The moment a lender or receivables insurance broker sees we are involved in the automotive industry, they immediately move us to a high risk category, will not extend credit, or they will transfer us to a third-party lender. Simply put, they believe we are not "bankable" due to our auto industry work. Even insurance companies are renegotiating their terms and in some cases only insuring 10 percent of an account receivable of some open Tier 1 invoices, whereas in the past they would typically insure 70-80 percent. They are concerned, as are we, that downstream suppliers are not able to successfully collect on monies owed.

Securing insurance on our accounts receivables is only the tip of the iceberg. The increasing number of Tier 1 suppliers who have received "going concern" advisories from their auditors is escalating the problems Tier 2 and 3 suppliers are having securing financing. A sample survey now two months old of automotive suppliers among NTMA and PMA memberships indicates that only 29 percent of Tier 2, 3 and downstream suppliers surveyed have access to credit based on receivables from Chrysler-related business, while 37 percent of suppliers to GM have access to credit based on their receivables. A government guarantee of the receivables and allowing safe passage of tooling payments through Tier 1s to these downstream suppliers would allow the middle-market companies access to the lines of credit we need to continue day-to-day operations and invest in our domestic production.

As our traditional lenders will no longer loan money based on accounts receivable, nor offer terms on equipment, small-middle-market manufacturers have few options. The Administration has been touting the Small Business Administration's 7(a) loan program, which under the American Recovery and Reinvestment Act will now allow the government to back a loan at 90 percent. For the automotive industry, anything short of a 100 percent receivables program will not work. Lenders do not believe companies with Tier 1 automotive supplier and manufacturer receivables are "bankable" – meaning we are too high of a risk for creditors. In addition, the 7(a) program also requires all holders of 20 percent or more of a small business to personally secure the loans – something very few of us are willing to risk in the current environment. Being required to risk our family home and our children's future on our ability to collect from a much larger customer that may have other priorities is unreasonable. Without access to credit and without leverage to secure payments, small family-owned companies like ours are bearing the brunt of the automotive industry's problems.

I am also aware of the Department of Energy's Section 136 Advanced Technology Vehicles Manufacturing loan and grant program. The intention is to support automobile and part manufacturers with the cost of re-equipping, expanding or establishing manufacturing facilities in the United States to produce advanced technology vehicles or qualified components. The challenge for suppliers, particularly tooling manufacturers, is we often do not know what the end platform is or the final fuel efficiency specifications of the vehicle. In addition, while the program is well-intentioned and can benefit many in our industry, we believe Congress should act quickly to provide funding for the grant program in addition to the existing loans process under Section 136.

Role of Federal Government

The U.S. Government's Automotive Supplier Support Program plays an important role in supporting not only General Motors and Chrysler but also their Tier 1 suppliers. However, since establishment of the program, we have seen little benefit to Tier 2 and 3 companies. Of course, we need our customers healthy and to stay in business so we can survive, but we cannot continue providing tooling, components and services to Tier 1 suppliers or vehicle manufacturers if we cannot guarantee or insure payment. In the past, Ford, GM, Chrysler and others would pay downstream suppliers directly. However, over time, for their own simplicity, they began to pass payment through the Tier 1 supplier. Recognizing the dire situation throughout the supply chain, I have heard recent reports of GM again bypassing the Tier 1 and paying the Tier 2 supplier directly to ensure payment. That temporary band aid cannot work for everyone and the government should play a more direct role.

I believe the federal government can extend relief to our companies by insuring or guaranteeing receivables of businesses supplying a vehicle manufacturer which receives taxpayer funds. For example, a tooling company like ours would register their purchase order with the government to either guarantee or insure (or reinsure) payment under certain terms. The government, as is the case under current U.S. and Canadian programs, could charge downstream suppliers a 2 or 3 percent fee depending on the service provided. Under this scenario, the federal government would make money, Tier 2 and 3 suppliers could continue operations providing tooling and components with the confidence that we will receive payment within a reasonable amount of time. This would also provide a significant comfort level to our creditors who will have assurance that we will remain viable. The entire automotive supply chain tooling payment process has been dysfunctional for some time, and we are working with OEMs and others on long-term plans to fix the situation. However, in the short term, we need relief and one key element is for the government to provide a "safe passage" mechanism of our receivables through the Tier 1s in the event of bankruptcy or disruption in the supply chain. There is no question in my mind; the federal government has much more leverage and resources to collect on outstanding invoices than a company with 84 employees in quiet Central Indiana.

Over the years, the domestic automotive industry has adopted a model for tooling payment that is unsustainable over the long term. When credit was easy, we were willing to live with it. In the current environment, we cannot continue if we can no longer secure credit for operations. We are working with the automobile manufacturers, Tier 1 suppliers, the White House Automotive Task Force and key players on both sides of the U.S.-Canadian border to find long-term solutions. In our meetings, we are not only focusing on the payment aspects of our industry but also trying to

improve tooling and design and part design to make our domestic industry more competitive. It is critical that we all partner together – industry, government, labor – to help us emerge from the current situation more globally competitive and efficient.

I cannot stress enough, this is not just an automotive industry problem; it impacts all Americans in all communities. Small-middle-market manufacturers like Overton Industries are the backbone of this economy and are essential to the recovery of the auto industry and the U.S. economy. I look forward to continuing to work with the Obama Administration and members of Congress to strengthen manufacturing in America. Thank you for the opportunity to submit this testimony for your consideration.

TESTIMONY
United States House of Representatives
Committee on Small Business

May 13, 2009

Mr. James M. "Jim" Jones, Vice-President
Dixie Industrial Finishing Company
Tucker, Georgia

On behalf of:

The National Association for Surface Finishing

TESTIMONY
House Committee on Small Business
May 13, 2009

Mr. James M. "Jim" Jones, Vice-President
Dixie Industrial Finishing Company
On behalf of
The National Association for Surface Finishing

Good morning, Chairwoman Velazquez, Ranking Member Graves and members of the committee. I am Jim Jones, Vice-President of Dixie Industrial Finishing Company. We are located in Atlanta, Georgia, and have 54 employees. I am testifying today on behalf of the National Association for Surface Finishing (NASF), the leading trade association for the metal finishing industry with over 2500 corporate and professional members in the U.S. I currently serve on the Board of Directors of the NASF.

We are also a member of the Precision Metal Forming Association (PMA), the National Association of Manufacturers (NAM), the Southeastern Fastener Association (SFA) and the Georgia Industry Association (GIA), of which I am a past president. I have been employed in the surface finishing industry since 1957 and I have been with Dixie Industrial Finishing Company since 1960, except for a break for military service with the United States Air Force.

Significance of Surface Finishing to Automotive and U.S. Manufacturing

For 49 years, Dixie Industrial Finishing has supplied surface finishing services for a range of industries that provide jobs and quality of life for Americans as well as products for consumers worldwide. My company and nearly 2000 operations like it are critical links in the automotive and other major manufacturing supply chains. Over 80 percent of U.S. surface finishing "job shops" employ fewer than 75 people, and the

majority of the industry has less than $10 million in annual sales on average. We are truly the small auto industry suppliers.

Like other key industries, surface finishing plays a significant value-added role in the auto parts and components supply chain. We use electrochemical technology to apply metal and other coatings onto literally thousands of different types of automotive parts. Our industry makes the auto components that we finish ***look better, work better and last longer.***

An estimated 20 percent of parts on an automobile require electroplating of metals or related coatings. Functional coatings provide parts with new properties like friction and wear resistance, corrosion protection, conductivity or other characteristics. Certain coatings are so critical that a car – or, for that matter, a jet or a spacecraft – can't work without them. In fact, one finishing company located in Brooklyn in Chairwoman Velazquez's district provides surface finishing services for some of the most sophisticated components and equipment used by NASA and the Department of Defense.

By volume, we estimate that automotive products account for nearly 50 percent of the total number of parts that are surface engineered by our industry. The contribution of surface finishing to the broader manufacturing value chain has been estimated by some to approach $100 billion, and the value added from the metal plating or related coatings is often higher than the value of the parts themselves.

Impact of the Automotive Crisis on the Surface Finishing Industry

The impact of the U.S. automotive crisis and its ripple effect through the supplier base has been extremely painful for the finishing industry. Those shops that service automotive directly, or through their Tier 1 or Tier 2 suppliers, are currently facing the worst downturn we have seen in our lifetimes. As small manufacturers, our economic livelihood depends on the health of our automotive and industrial customers.

It comes down to basic economics – when our customers suffer, we suffer. And the steady jobs and benefits we provide for over 100,000 American workers in the finishing industry are disappearing at an alarming rate. It's estimated that the finishing industry has shed approximately 30,000 jobs nationwide just in recent months. Automotive is not the sole driver, but a significant factor.

Dixie Industrial Finishing serves a relatively diverse customer base – our current revenues are just under 20 percent automotive. Our sales have dropped off, however, from $8.5 million annually last year to a projected $5.0 million for 2009. We've also reduced our workforce by about 35% since the beginning of the year, by about 30 employees.

But many job shops in the auto supply chain have seen sales decline by as much as 70 percent. These are typically well-managed, quality-driven and customer-focused companies. Yet they face a near or certain disaster that has absolutely nothing to do with their ability to drive a successful business. They've responded to massive production slowdowns by their larger automotive customers by cutting shifts and scaling back workweeks. Some have slashed every cost they can actually manage and are holding on until the crisis is sorted out. Others have filed for bankruptcy. In the meantime, Chrysler's restructuring plans and GM's pending plant shutdowns create major uncertainties for the finishing industry in the future.

Some Immediate Challenges and Recommendations

There are several immediate challenges faced by small suppliers that we look forward to addressing in our work with the Committee and others in Congress.

(1) Access to Credit

First, banks are not lending money. Very few, if any, small finishing job shops are able to get financing for routine business activities, particularly in automotive. And

the situation is not improving. For the job shop that bought materials and set up their operations to finish parts for a Tier 1 or Tier 2 supplier, the response from commercial lenders was "sorry, too much GM, too much automotive exposure."

Some job shops that have financing arrangements based on their accounts receivables face a major squeeze. In one case, a job shop with an arrangement to borrow up to 80 percent of its accounts receivables had record revenues, but then lost 50 percent of its sales within 30 days. The drop-off quickly squeezed them out of the financing they were used to using for developing new projects.

(2) Federal Assistance to the Auto Industry

Another concern we have is that federal aid aimed at the auto industry is essentially not accessible or helpful to smaller finishing suppliers.

The recent U.S. Treasury program guarantees or insures receivables for suppliers of GM and Chrysler, but it limits aid to direct suppliers of GM and Chrysler and goes no further. One finishing company I've spoken with actually supplies directly to GM, so his direct GM receivables are insured. However, the same shop also supplies Tier 1 and Tier 2 suppliers to GM, yet these receivables are not insured.

As for the Department of Energy's loan program for Advanced Technology Vehicles, we were enthusiastic when we first heard about it. But as our association and outside counsel reviewed the eligibility criteria, it was clear that while small suppliers were welcome, participation was tedious in terms of the information demands made on smaller finishing companies. We were not aware of any company in the finishing industry that took advantage of this assistance.

The Small Business Administration has help available also, but we have not seen reports of our job shops successfully using the 7A guaranteed loan programs for

automotive related projects. The program relies primarily on commercial lenders which aren't financing projects for automotive-related projects.

(3) Selected Targeted Policy Changes

In light of the scope of federal resources that has already been committed to assisting the automotive supply chain, we'd like to provide examples of some additional, targeted suggestions that would help incentivize small suppliers and reduce the increasingly higher costs of operating in the U.S.

Energy Efficiency – Provide more significant tax incentives for small manufacturers like surface finishers to pursue key energy efficiency investments and upgrades at the plant that would cut energy costs and minimize air emissions.

Environmental Protection – Provide tax incentives for expanding our investments in environmental technologies for manufacturing operations, such as upgrades or replacements for wastewater treatment and air pollution control systems.

The Challenge Extends Beyond the Automotive Crisis

Beyond some of these near term and targeted suggestions, we believe it's important to point out that job losses in the finishing industry are occurring in nearly every sector. The automotive crisis has accelerated and deepened a trend that has been underway for some time. This larger trend is due in part to some of our own U.S. policies and those of other nations that have diminished U.S. manufacturing competitiveness and made it easier to produce things overseas.

Our industry surveys show that jobs in the finishing industry have declined by about 50 percent since the mid 1990s – from approximately 200,000 to about 100,000 earlier this year. Several factors have been responsible for this decline, among others:

- repeated price concession demands down the supply chain from GM, Chrysler and Ford, as well as some of our industrial customers in other sectors;
- the consistently high structural costs of doing business in the U.S., such as health insurance coverage (my own company's health care costs have risen by 100 percent over the past three years);
- global sourcing and off-shoring to Asia and other locales by our large industrial customers; and
- the trade and currency practices of some of our key trading partners.

One measure of how dramatically the global economy has changed the small supplier base for the automotive industry and U.S. manufacturing as a whole in recent years is how stable my company's customer base has been over time. It's a fact that we have been forced to replace 100 percent of our customer base in the past ten years.

This means that no matter how excellent our quality is, no matter how lean we've become through automation and upgraded operations, no matter how well we treat our customers – our customer base of major industrial players is constantly disappearing before our eyes by shutting down operations, looking for cheaper vendors, and moving operations out of the country.

In light of our challenges, we would recommend to the Committee our broader agenda for helping finishers and other small manufacturers invest, innovate and help create jobs for American workers. It's essential to create future opportunities built on:

- **U.S. Competitiveness** – we need to review the U.S. jobs impact of our current regulatory framework and our relationship with our trading partners, whose lower overhead costs and trade policies continue to undercut our competitiveness.

- **Manufacturing Growth** – as job creators in our communities, we need Congress to promote and incentivize a viable small manufacturing base, starting with the automotive supply chain.

- **Manageable Health Care Costs** – we support changes to our health care system that make health insurance affordable, as small and midsize manufacturers can no longer support health coverage for our employees in the way we once did.

- **New Technologies and Affordable Energy** – new markets and products driven by a new energy economy may require a range of surface finishing technologies. We support greater commitments to small business R&D initiatives and options for reducing the cost of energy for small suppliers.

- **Democracy in the Workplace** – we support our long-held democratic tradition of private ballots in union organizing elections, and oppose the recently introduced Employee Free Choice Act.

We look forward to discussing these issues and recommendations further with the Committee and others in Congress.

Thank you.



Testimony of Chris Norch
President
Denison Industries

On behalf of the American Foundry Society

Before the

House Committee on Small Business

Role of Small Business Suppliers and Manufacturers in the Domestic Auto Industry

May 13, 2009

Introduction

Good morning Chairwoman Velázquez, Ranking Member Graves, and Members of the Committee. Thank you for providing me the opportunity to comment on the vital role the metalcasting industry plays as a supplier to the domestic auto industry and how the downturn in the automotive industry is having a devastating impact on many of our member companies.

I am Chris Norch, president of Denison Industries. My metalcasting facility is comprised of 125 employees and was founded in 1991. We specialize in the production of aluminum castings for the automotive, defense, aerospace and commercial industries. Prior to joining Denison Industries in 2004, I worked for my family-run business Oil City Iron Works Inc. for twenty years. I am here representing the American Foundry Society (AFS) where I serve on its Board of Directors both at-large and as a Regional Vice President and my testimony here today is a reflection of the current state of our manufacturing sector.

AFS is the major trade and technical association for the North American metalcasting industry. It is comprised of more than 8,500 members representing more than 3,000 metalcasting firms, their suppliers and customers in every state in the country. Castings are found in 90 percent of all manufactured goods. The metalcasting industry produces both simple and complex components of infinite variety, whether they are produced once as a prototype or thousands of times for use in a

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manufactured product. It can be said that when you stand in the middle of the average American city, you are never more than 10 feet from a metal casting.

Metalcasting plants employ 200,000 people primarily outside of major metropolitan areas. The highest geographic concentration of facilities is in the Great Lakes, Midwest, southeast regions and California. But every state in the U.S. has a metalcasting facility. The majority of our members are family-owned businesses, employing an average of 100 people or less. And all of them offer good-paying, blue-collar jobs with benefits that have allowed our employees to support their families and send their kids to college.

Impact of the Collapse of the Automotive Industry on the Metalcasting Industry

Auto suppliers manufacture most of the 15,000 parts that go into a single automobile. In fact, more than 70 percent of a car's value - from the seats to the engine block, from the electronics to the bumpers - is sold to the automakers by suppliers.

For the metalcasting industry, we provide at least 100 castings in every light weight vehicle produced in the U.S., which equates to more than 600 lbs of cast metal (aluminum, iron, magnesium and zinc) per vehicle. In fact, automobiles and other transportation equipment utilize 31% of all castings produced in the U.S. - including engine blocks, crankshafts, camshafts, cylinder heads, brake drums or calipers, intake manifolds, transmission housings, differential casings, U-joints, suspension parts, flywheels, engine mount brackets, front-wheel steering knuckles, hydraulic valves, and a multitude of other castings.

Many metalcasters manufacture castings for sale to other companies and serve as Tier 2 and 3 auto suppliers. An important exception are the relatively few (but large) "captive" foundries operated by the original equipment manufacturers (OEM's) including General Motors Inc. (GM), Ford, and Chrysler.

The nation's economic problems are taking a toll on metalcasting parts suppliers in the automotive supply chain, not just on the Detroit Three. U.S. auto sales, which collapsed last fall amid a deepening economic crisis, fell close to 30 percent in the first quarter of 2009 and are not expected

to improve for months. The continuing deterioration of the North American automotive industry is reflected in the latest production numbers which show that light vehicles were down 34 percent in April.

Like the Detroit Three, many of our suppliers have been restructuring their operations drastically to match the shrinking demand. Unfortunately, we are often waiting 90 days or more for payments from the automakers. Now, if you get paid in 120 days, you are doing well. Suppliers normally borrow against the bills to maintain their own inventories and payrolls. Today, however, these suppliers are having a very difficult time getting any bank to lend them money while they wait for payments from the Detroit Three. GM and Chrysler, for example, owe their large and small suppliers a total of roughly $10 billion for parts that have been delivered. GM has held off paying them for weeks, and Chrysler is paying in small increments.

Many of our small suppliers will simply liquidate because they don't have the resources to reorganize in Chapter 11 bankruptcy – they are just going away. Over the past six months, nearly 15 metalcasters have been forced to close their doors or will close shortly – from Navistar's Indianapolis Casting Foundry employing more than 700 workers to 25 workers at Elmira Pattern & Foundry in New York. Other facilities that are closing are located across the country - from Monroe City, Missouri to Warrenton, Georgia to Van Nuys, California.

In recent months, we have seen a surge of foundry layoffs directly related to the downturn in the automotive sector in hundreds of communities. Grede Foundries, a Milwaukee-based company, operating eight foundries supplying castings to the automotive, appliance, agricultural and construction machinery industries, has struggled with the severe downturn in the auto industry and the rest of the manufacturing economy. In the past few weeks, Grede has laid off hundreds of workers at its plants in Minnesota, Wisconsin and Michigan. A factory manager at its St Cloud, Minnesota foundry, said orders are down 65 percent compared with a year ago. At the end of April, they announced they will be closing their Greenwood, South Carolina automotive foundry in an area already hit with 14% unemployment.

AFS estimates that we could lose another 30 foundries in the next six to nine months, if we do not see a rebound in the automotive sector and economy in general. Attached is a list of metalcasting facilities that have announced layoffs and closures in the past six months and reported in the press. There are many more shops that have instituted layoffs but are not covered in news reports.

With little attention being focused on the lower tier suppliers, we need Congress' and the Obama Administration's support to help ensure the survival of the Tier 2 and 3 metalcasting suppliers. A recovery plan for GM and Chrysler is simply not viable unless it takes into account the entire automotive supply chain, including metalcasting suppliers of small and medium-sized businesses who supply Tier 1 companies.

The decision by Chrysler to file bankruptcy and shut down its plants during bankruptcy could not have come at a worse time for our parts suppliers, whose revenues have fallen sharply. They are already trying to figure out how to survive the other recent surprise news that GM would shut many of its plants for most of the summer. These shutdowns could be disastrous to many metalcasters because they are already operating on paper thin profit margins because of previous production cuts and strong-arm pricing tactics from the Detroit Three. During the shutdown, suppliers will not be able to ship parts to GM or Chrysler and will lose critical revenue.

A number of smaller, Tier 2 and 3 suppliers could fail because of the extended assembly plant shutdowns for the next several months. This potentially could pose a problem for suppliers that purchase parts from these smaller suppliers, or even indirectly force automakers to temporarily idle some plants. Industry experts now anticipate a third of auto parts suppliers may go out of business in the next 3 years.

As we move to more fuel efficient vehicles, the metalcasting industry can play an important role in producing safe, but lighter weight vehicles. We have been leading the charge to redesign heavier steel and iron parts to lighter weight aluminum and magnesium components throughout the automobile. These conversions have occurred in the engine with blocks and heads to the brake and suspension systems with discs and crossmembers to the auto body with instrument panels. AFS is currently working in conjunction with the U.S. Army to research and develop light metal alloys for military application. The findings of these studies will provide lighter and stronger materials for our

defense systems while increasing service life. These same applications can and should be applied to the auto industry.

With the layoffs of engineers from the Big Three, the automakers are going to have to rely even more on their supply base to re-engineer the various component systems on their automobiles. So if we aren't here, who is going to help?

The fate of thousands of workers who make up the supply chain in hundreds of communities across the country depend on fair treatment by GM, Chrysler, our government and bankruptcy process.

Competitive Challenges Facing the Metalcasting

In addition to the downturn in the automotive sector, the metalcasting industry must overcome a multitude of domestic and international challenges. It's no secret that small businesses are the main engine of innovation and job growth in the U.S. economy. Today, as the nation struggles to regain its footing, policymakers and lawmakers need be working in a bipartisan manner to provide us with the tools we need to grow and prosper not laws that will further harm our industry. We are particularly concerned with the following pieces of pending legislation:

Taxes. It is tough to imagine that any U.S. manufacturer would endorse the kind of heavy tax increases called for under President Obama's FY 2010 budget. Small businesses represent more than half of the "individuals" to be hit by over $1 trillion in tax hikes in the next decade. Additional tax hikes on American businesses will cost employers nearly $300 billion over the next 10 years and tax increases on capital gains and dividends will only further deplete critical capital re-investment and consumer spending. Squeezing the most productive sectors of the economy is no way to kick-start a languishing economy.

Climate Change. AFS is strongly concerned that the aggressive cap-and-trade provisions contained in the Waxman/Markey discussion draft, *The American Clean Energy and Security Act of 2009,* which would dramatically increase energy prices and continue to drive U.S. metalcasting facilities offshore. All metalcasters, even those not covered under the cap-and-trade proposal, will see energy costs increase exponentially. We operate under extremely tight profit margins, and

higher energy costs could ultimately mean the difference between staying in business or having to shut the plant doors. Any legislation must contain a strong competitiveness provision. Chinese metalcasters use inefficient melt methods and furnaces, resulting in approximately 200% more GHG emissions than their U.S. counterparts for each ton of castings shipped. We are already experiencing a significant amount of off-shoring of castings – the discussion draft in its current form will only force more of our customers offshore.

Card Check. The Employee Free Choice Act in its current form is a job killer. It would strip workers of the right to vote for union membership by private ballot. If a recently formed union does not agree to a labor contract with an employer, a government arbitrator steps in to determine salaries, benefits and working conditions. Jobs are not created by government arbitrators or unions — they are created by the small businesses who would be hardest hit by this idealistic law and are in the most favorable position to work out mutually beneficial working parameters with their employees.

Unfair Trade Practices / Currency Manipulation. Our government's current trade policies have dramatically affected the viability of our industry. The future of the U.S. domestic metalcasting industry and its jobs are severely threatened by the increase of imported castings, as offshore facilities have grown to meet more than 23% of the demand in the U.S. A number of U.S. trading partners, most prominently China, have actively pursued policies that undervalue their currencies and subsidize their manufacturing sectors. Since 1994, the Chinese government has undervalued its currency by as much as 40 percent. This practice artificially lowers the cost of Chinese castings, since Chinese foundries receive a 15 to 40 percent subsidy on their casting exports. This makes it virtually impossible for domestic foundries to compete fairly.

The U.S International Trade Commission (ITC) Section 332 fact-finding investigation into the competitive conditions facing the U.S. metalcasting industry issued in May 2005, revealed that foundry customers and prominently the Detroit Three, "significantly increased their purchases of foreign-produced castings at the expense of U.S.-produced castings, primarily because of lower

foreign pricing.[1]" Furthermore, the ITC report indicated that China was a major source of the cheap imports flooding the U.S. market. This huge surge in imported castings has directly contributed to the loss of thousands of foundry jobs and numerous foundry closures in recent years, as well as having a negative impact on the total U.S. manufacturing sector.

Furthermore, our members are not just competing against other global companies – they are competing against a Chinese government that strongly supports its manufacturing sector and engages in illegal practices through a web of subsidies in clear violation of its World Trade Organization obligations. The Chinese government is subsidizing the purchase of raw materials and energy and/or providing them below cost via state-owned enterprises. In fact, China's government controls the price of gasoline and electricity, thereby allowing Chinese manufacturers to obtain these vital items at subsidized prices.

Since January 2009, China has announced stimulus plans for ten of its manufacturing sectors including: vehicles, steel, shipbuilding, machinery, textiles, electronics, and information technology. The majority of these sectors require metal castings. We simply cannot compete fairly against more subsidies.

Moreover, American metalcasters must compete against Chinese, Brazilian and Indian plants that have much lower labor costs, pay very little or nothing at all for health insurance, and have lax or nonexistent environmental regulations and safety standards. The Chinese social safety net is inadequate. There is no universal Social Security, less than 20 percent of workers have pensions, and less than 15 percent are covered by unemployment insurance.

Our association members continue to see their customers move offshore because of these lower costs. For example, one family-owned facility in Georgia reports that one of their customer's moved in excess of $1 million of production of actuator castings for oil and gas pipelines from their plant to China in the last year or so, and of another customer that has moved close to $2.0 million in castings for commercial lawnmowers to China.

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[1] "Foundry Products: Competitive Conditions in the U.S. Market" (Investigation No. 332-460, USITC Publication 3771, May 2005), - www.usitc.gov.

Unfortunately, the U.S. Department of Treasury in its semi-annual reports has persistently chosen not to cite China for exchange-rate "manipulation" within the meaning of the International Monetary Fund's Articles of Agreement. The report claims that it cannot be determined if China's policy of undervaluation is intended to gain an unfair competitive advantage in trade or to prevent adjustments in China's balance of payments. AFS feels this longstanding approach by the Treasury Department has been fruitless and will remain so, and therefore, a legislative strategy needs to be adopted to hold countries like China accountable under their international legal obligations.

Since China continues to enjoy the benefits of membership in the international economic community, it is only fair that it abide by the community's rules and responsibilities. The time for change is now, before our industry and the rest of U.S. manufacturing is put further at risk. American foundries and workers cannot compete when the playing field is rigged which is what China and some of our other trading partners have been doing - rigging its currency at a level that economists agree is substantially below its fair value and engaging in unfair trade practices.

It is time for the Congress to hold China and other countries accountable to their World Trade Organization obligations, especially against currency manipulation and the illegal export subsidies that enable these producers to sell below real costs. The yuan, the yen, and other currencies remain badly undervalued against the U.S. dollar.

We urge you to support the proposed bipartisan currency manipulation bill, *The Currency Reform for Fair Trade Act*, which will be introduced this week by Representatives Tim Ryan (D-OH) and Tim Murphy (R-PA). The measure would allow injured American industries to seek either countervailing or antidumping duties in a manner consistent with U.S. obligations under the WTO. It is time for our government to insist that all our trading partners adhere to the rules of trade that make for fair trade.

We remain deeply concerned that the United States is not changing its failed economic policy with respect to manufacturing. By neglecting manufacturing, our nation will have one less engine to fuel its economic recovery and is in danger of again traveling down the same policy road responsible for America's present economic failures.

Conclusion

The weakness of most all the metalcasting suppliers is that they are dependent on the over-arching auto sector in a way that makes them extremely vulnerable. A supplier can be as well-run and efficiently managed as possible, but if the auto industry is not made materially healthier along the way, nothing the suppliers do will matter. The auto industry can and must operate under the same standards of lean manufacturing, development of strong domestic suppliers and prudent fiscal management that even the smallest of tier 2 and tier 3 metal casters operate. With the incredulous amount of resources they have at their fingertips, the auto industry should be the leader of American manufacturing and not the death knell.

As Congress and the administration invest billions of dollars into Chrysler and GM, it is imperative that we help ensure the survival of Tier 2 and 3 companies in the supply chain. A recovery plan for Chrysler and GM is simply not viable unless it takes into account the entire automotive supply chain, including the metalcasting industry's small and medium-sized businesses who supply Tier 1 companies. Any restructuring plan must preserve jobs in the U.S. and not shift more of GM's and Chrysler's manufacturing footprint from the U.S. to Korea, Japan and China.

The future of our country is intertwined with the success of our manufacturing industries. A country that manufactures less and less will find itself in a weakened position as time passes. Our country, and all that it stands for, is dependent on a strong economy. We cannot have such without a strong manufacturing presence.

Thank you, and I welcome any questions.

Attachment: Metalcasting Plant Closures & Layoffs (12/08 – 5/09)

Metalcasting Plant Closures & Layoffs
12/08 – 5/09

Superior Industries International Inc. - Pittsburg, KS – Closing 600 Jobs Impacted – 10/1/08 – The aluminum automotive wheel metalcasting facility will close by Dec. 19. The closure will result in approximately 600 layoffs and is in response to reduced demand for SUVs and light trucks.

Dalton Corp., Kendallville, IN - Closing Foundry 200 Jobs Eliminated – 12/11/08 - In March 2009, Kendallville Foundry will close and eliminate 200 positions. Because of the recession and the economic problems facing the foundry industry, they decided to close the facility. Dalton makes gray iron castings for air conditioning, refrigeration, engine heads and other products. The plant ranks among the largest local employers.

West Irving Die Casting – **Sandwich, IL – Closing Foundry 200 Jobs Eliminated – 12/31/08** – West Irving is eliminating 200 jobs as the automobile industry's woes continued. Toyota and GM canceled orders or cut their business with the company, and the entire firm is unable to stop the hemorrhaging of $750,000 a month, according to a consultant with the company on its closing.

Amsted Rail – Granite City, IL - 363 Foundry Layoffs – 1/5/09 - Chicago-based Amisted filed the notice in December with the Illinois Dept. of Commerce and Economic Opportunity that will be laying off 363 workers in the coming month. It produces steel castings for freight car and automotive manufacturing.

Ford Motor Co., Brook Park, OH – Closing Foundry in 2010 – Over 1,000 Jobs - 1//5/09 - This foundry produces cast-iron engines for Ford F-Series Super Duty trucks, Ford E-Series vans and Ford Expedition and Lincoln Navigator SUVs. It has 1,100 hourly and 118 salaried workers. It is slated to close in 2010. While Ford is closing facilities in the U.S., it just opened its newest plant in Nanjing, China because of lower overall operating costs. Ford could begin exporting cars from China in the near future.

TRW Automotive - Warrenton, GA – Closing Foundry 215 Positions Impacted – 1/14/09 – TRW Automotive announced it will cease manufacturing operations at its Warrenton Casting Center, a gray iron automotive metalcasting facility at the end of the first quarter of 2009. The metalcasting facility employs about 215 people. TRW produces electronic, steering, braking and occupant safety systems for more than 40 vehicle manufacturers.

Navistar International Corporation – Indianapolis, IN – Closing Foundry 700 Jobs Impacted - 1/27/09 – Navistar will close its Indianapolis engine plant and as a result of changes in its business relationship with Ford Motor Company, the facilities' primary customer. Ford and Navistar previously announced that they will end their diesel engine supply agreement. Navistar intends to cease operations at its Indianapolis campus as of July 31, 2009. About 700 people will be affected.

J .L. French Automotive Castings Inc. – Sheboygan, WI – Permanently Lay off 337 - 1/28/09 – The company said it now will permanently lay off 337 from its plants beginning Jan. 30. The

company is a designer and manufacturer of engineered aluminum die-cast automotive parts, including oil pans, engine front covers, engine blocks and transmission cases.

Superior Industries International Inc – Van Nuys, Calif – Closing/290 Jobs Elminated – 1/13/09 – Automotive wheel supplier Superior Industries will close by June 2009. The closure will eliminate approximately 290 jobs. Superior produces aluminum automotive wheels in both the forging and metalcasting processes. The closing represented an effort to reduce costs and lower capacity to match shrinking demand for light vehicles. Superior counts Ford, General Motors, Chrysler, as well as many foreign car companies as customers.

Stroh Die Casting, Milwaukee, WI – 60 Layoffs – 2/20/09 – notified the state that it plans to lay off 60 workers, according to a notice filed with the Wisconsin Department of Workforce Development.

Gibbs Die Casting – Henderson, KY – Reports 28 layoffs – 2/20/09 – Citing the continued downturn of the auto industry, Gibbs Die Casting Corp. announced the layoffs of 28 salaried and hourly employees from its Henderson plant and headquarters. A company spokesman said the "unprecedented downturn" in the auto industry "has caused Gibbs Die Casting Corp.'s sales to fall more than 30 percent." Gibbs makes aluminum and magnesium engine, transmission and other castings for vehicles.

Fort Wayne Foundry Corp. – Fort Wayne, IN – Closing Plant —226 Positions —3/03/09 —174 employees at the company" Lima Road division will be laid off in June, along with 52 workers at its machining division at the same time. The company makes aluminum engine parts and says the cuts are due to the downturn in the automotive industry. Their only customer is GM.

Brillion Iron Works – Brillion, WI – Lay Off 265 —3/24/09 —Brillion Foundry is laying off 80 workers. It makes castings for semi-trucks.

Carlton Creek Ironworks, Inc – Rothbury, MI – Shut down indefinitely / 188 Workers Impacted – 4/6/09 —A company created to manufacture high quality castings for the wind turbine industry, has shut down its Rothbury plant indefinitely.

Caterpillar Inc. – Mapleton, IL – Lay Off 200 foundry workers – 4/10/09 —Caterpillar Inc." woes have reached the company" foundry in Mapleton, where nearly 200 employees —most of them production workers —will be laid off at end of the week. A drop in demand for Caterpillar" large engines manufactured at its plant in Lafayette, Ind. was the chief cause of the Mapleton layoffs. Much of the work done at the foundry was for engines produced at Lafayette.

Kirsh Foundry Inc. – Beaver Dam, WI – Lays Off 60 —4/17/09 – A manufacturer of engineered iron castings will institute layoffs because of an ""nprecedented""decline in order. It has laid off more than a dozen workers and expects to lay off as many as 60 more employees in the coming months. All of the layoffs are expected to be temporary, although the firm could not determine a specific duration. Kirsh Foundry supplies manufacturers like Caterpillar, Ingersoll-Rand, Emerson Electric and Eaton Corp.

Elmira Pattern & Foundry —Elmira Heights, NY – Closed —4/20/09 —has halted production and is going out of business, a victim to the economic slowdown. Although the company specializes in aluminum castings, its pattern shop makes molds for outside foundries that use other metals in their processes.

Waupaca Foundry – Tell City, IN – 200+ Jobs Cut – 4/24/09 —About 45 workers at Waupaca Foundry Inc. lost their jobs this week. Since early February, the foundry has lost 190 workers, lowering the total there to just below 700. The company blamed the reduction on declining sales to the automobile industry. Waupaca Foundry makes iron castings used for brakes, suspension systems, housings, crank shafts and similar parts.

Grede Foundries Inc. —Greenwood, S.C. – Closing Foundry – 165 Jobs – 4/24/09 – Grede annouced it will close this foundry within the next 60-90 days. The plant produces gray and ductile iron components for the automotive market and other industrial markets. The unemployment rate for Greenwood County is approaching 14%.

Donsco Inc.– Mount Joy and Belleville, PA – Layoffs of 158 —4/28/09 – A Pennsylvania foundry with facilities in Belleville, Wrightsville and Mount Joy, could begin temporary layoffs starting June 22. Donsco produces gray and ductile iron castings for industrial clients. A total of 73 employees could be affected by the temporary layoffs in Belleville. In addition, the Mount Joy facility anticipates a temporary layoff of 85 people. Approximately 450 people work at Donsco facilities in Mifflin, York and Lancaster counties.

Grede Foundries Inc. – Wauwatosa, WI – Layoffs of 81 —5/1/09 —Grede blamed the layoffs from the Liberty Foundry, at 6332 W. State St., on the ""ontinued downturn in the economy and the substantial reduction in production orders.""The company said it is likely that the employees may be laid off for six months or more.

Grede Foundries, Inc. – St. Cloud, MN – Lays Off 130 —5/5/09 —will lay off 130 people. The decision followed GM's announcement it would close its plants for up to nine weeks this summer and because its biggest customer Chrysler announced it would file Chapter 11 bankruptcy.

Trace Die Cast —Bowling Green, KY —Lay Off 135 workers – 5/4/09 —Trace Die Cast announced that it will lay off 135 workers. It is a Tier One and Tier Two supplier of aluminum die castings for the automotive industry.

Pace Industries —Monroe City, MO – Lays Off 80 —5/5/09 —The impending shutdown of General Motors plants around the nation will mean Pace Industries will lay off another 40 employees starting Thursday. In January, the company let go 40 of its 260 workers and cut production from three shifts to two.

GM Foundry Plant – Defiance, OH – Idle for 9 Weeks - 5/7/09 —General Motors Corp. says it will temporarily close all or portions of 23 engine, transmission, and parts factories across the United States for several weeks because vehicle-making plants also will be idled. About 1,500 workers at GM's Defiance foundry plant will observe "rolling down weeks" beginning Monday through the traditional two-week shutdown that begins June 29, with production set to resume July 13.

Grede Foundries Inc. – Wichita, KA —Lays Off 87 – 5/9/09 —Grede Foundries gave 60-day layoff notices this week to 87 workers at its Wichita operation. The foundry, at 805 E. Boston, has been in Wichita for decades and employed 240 workers as recently as 2006.

Grede Foundries Inc. – Reedsburg, WI – Lays Off 135 – 5/11/09 —The Reedsburg Foundry of Grede Foundries, Inc. will temporarily reduce employment levels in response to General Motors"announcement to shut down their operations for up to nine weeks this summer and Chrysler" announcement to file Chapter 11 bankruptcy. Over the last three weeks, the plant has temporarily reduced its workforce by approximately 135 employees

Quad City Die Casting, Moline, IA – Closing July 12 – Over 40 Jobs – 5/11/09 – Family-owned Quad City Die Casting Company in Moline is closing its plant on July 12t^{h} Quad City Die Casting makes aluminum die castings and other castings for several companies including Kawasaki. Dozens of people will lose their jobs.

*Note: This data is based on media reports from December 2008 to May 11, 2009



KC JONES PLATING CO
Corporate Offices/
Adhesive & Sealant Division
2845 E. 10 Mile Rd.
Warren, Michigan 48091
586/ 755-4900
586/ 755-4906 fax

Plating Division
321 West Ten Mile Rd
Hazel Park, Michigan 48030
248/ 399-8500
248/ 399-2504 fax

C&R Plating Corporation
302 Factory Ave
Columbia City, IN 46725
260/ 248-8148
260/ 248-2080 fax

May 21, 2009

Rep. Nydia Velazquez, Chair
Rep. Sam Graves, Ranking Member
House Small Business Committee
2361 Rayburn HOB
Washington, DC 20515

Re: Committee Hearing Record – Challenges for Small Automotive Suppliers

I would like to submit for the hearing record more detailed information on the credit challenges faced by small auto suppliers. Jim Jones referenced my company's experience in his testimony last week before the committee, and asked me to highlight several of the "real life" difficulties most of us face getting financing. I'll start out by noting that after all other options have apparently failed, including SBA loan programs, we are currently attempting to secure financing under, of all things, a U.S. Department of Agriculture program.

Our Recent Challenges in Securing Credit to Grow Our Company and Provide Jobs

In late 2004 our banking relationship was being actively pursued by Key Bank Corp in Michigan. We were offered substantially reduced interest rates, fee reductions and a wavier of the requirement to get appraisals updated if we would move to Key. In November of that same year, Key had decided that Michigan was no longer a strategic growth area for the bank. Because of that decision, Key began a very critical analysis of their new relationships. Our company's business was determined to be not profitable enough for what they now felt their risk level to be. At this point and even though we had never missed a payment or been late for a payment we were asked to seek financing elsewhere. Key bank would execute a forbearance agreement while we sought new financing, HOWEVER, there would be new fees and interest rates to accompany this agreement that recognized their new perceived risk. Interest rates were increased in excess of 300% and administrative fees were introduced totaling $75,000.00. In addition, the bank insisted that a Chief Financial Officer be engaged to monitor progress and assist in the turn around. The fees for that effort totaled:

2005 $22,558.08
2006 $409,717.66
2007 $339,878.89
2008 $88,048.97

In addition, we were required to get all new building and machinery appraisals at a cost of $27,000.00 and an audit fee of $10,000.00 was assessed as well. It's interesting that this level of burden can be imposed on a "impaired credit" and, with a straight face, have them be expected to survive.

In early 2007, the asset based lending division of Wells Fargo indicated that they would be interested in our business. As a requirement for their review, appraisals would need to be done again, with new appraisers and another audit fee of $7500.00. After four months of

effort, a declining domestic auto market, the beginning of rapid raw material price increases and frankly the cost burden of the restructure, Wells declined the credit because evidence of a sustainable turnaround wasn't long enough.

In 2008, the Textron Financial Corporation indicated that they felt based on the information received that they would be interested in financing K C Jones. After four long months of effort we did not get a denial, actually, we received nothing. We saw a notice in a Canadian paper that Textron had exited the commercial lending business. Another $10,000.00 in audit fees was spent on this exercise. Since July of 2008 we have had reviews by Quadrant Financial and Mainstreet Business Credit, both of these declined due to our concentrations in the domestic automotive industry.

Most recently, Fifth Third Bank did an analysis with the idea that we would use SBA guarantees. What was really interesting, this was also declined because "even though SBA guarantees 90% the bank is on the hook for 10% of the loan value." This was declined even though our assets for machinery and equipment exceeded the total loan value. If you looked at the value of buildings, equipment, SBA guarantees, and the value of the receivables the loan coverage was in excess of 2.5 to 1 or $2.50 to $3.00 in equity for every dollar borrowed. The reason given was that the bank currently would not loan to anyone with more than 25% exposure to the automotive industry.

In addition to the costs associated with banking relationships and securing new financing, the cost small business like ours have faced in the past several years include the costs associated with bankruptcies. At K C Jones and our C&R subsidiary some of the most notable account losses stemming from our customers' bankruptcies include:

Kendale Industries Cleveland	$261,000.00
Dana Corp.	$22,000.00
Taylor Machine	$50,000.00
Powerline Inc.	$75,000.00
MidCity	$90,000.00
TNG	$125,000.00
Grinier	$50,000.00
Dura	$10,000.00

If KC Jones had not been faced with the cost associated with a bank forced "restructure" and its associated costs it would have been profitable every year since 2003 with the exception of 2005 and 2006. If K C Jones had not also faced the bankruptcies in question, we would have been profitable every year. Is there any help available for small businesses like ours? We would be open to further discussing any financing ideas that would allow our 55 year old company to remain viable for years to come.

Sincerely,

Robert Burger
KC Jones Plating Company

KC Jones Plating Company

BEFORE THE CONGRESSIONAL STEEL CAUCUS

TESTIMONY
OF
WILLIAM UPTON, PRESIDENT
VULCAN THREADED PRODUCTS, INC.

APRIL 30, 2008

Good Morning.

I'm Bill Upton — President and cofounder of Vulcan Threaded Products — an American steel processing company with more than 250 American employees in Pelham, Alabama.

Vulcan has been in operation for more than 30 years, and we sell our steel products to more than 1,000 distributors throughout the United States. Vulcan buys its steel inputs from many U.S. steel mills, and we perform a number of different processing operations including cold drawing, heat treating, cutting, threading and bending.

I'm here today to share some startling and very disturbing information about some of the steel products that China is shipping into the United States.

First some background information. In November 2006, Vulcan sent a management team to China to explore business opportunities. Our company was having a hard time competing with the pricing on Chinese imports of certain threaded steel products coming into the United States. We were wondering how the Chinese were able to supply these products so cheaply.

Our team visited two Chinese factories that claimed to be producing an alloy steel threaded rod product known as "B-7." This threaded steel product is made in accordance with the ASTM specification A193 B-7, and it is a product that Vulcan has been producing for several years.

I brought a sample of the product to show to you.

(Show the sample.)

B-7 is a round steel bar made from alloy steel that is then heat-treated and threaded. It is used in structural applications for securing or fastening together all types of things where extra strength is required. For example, B-7 rods are used in oil refineries, oil wells, pipe lines, bridges, seismic structural systems for buildings, and power plants — just to name a few of its many applications.

(Show pictures of uses.)

When Vulcan visited China, our team observed the following serious problems with the Chinese production of B-7:

(1) The two Chinese factories we visited were not following the ASTM guidelines in producing these products. For example, the Chinese factories were water quenching the threaded bars. This is not permitted by the specification because of the very severe and rapid transformation that occurs with water. The integrity of the threads on the bar is damaged

during this method of quenching. Water is acceptable only if done prior to threading. The transformation refers to the internal structure of the alloy bar that gives the increased strength that the B-7 specification requires.

(2) Neither of the Chinese factories had the equipment controls necessary to insure consistent quality.

(3) The Chinese testing labs did not have the equipment to determine the values reported on their test reports for certification. How can a manufacturer send mill test results without the ability to conduct the test?

When our team returned from China, we purchased the Chinese B-7 product from four different U.S. importers in order to test the quality of the material. The B-7 threaded rod that we received was made by four different Chinese manufacturers. We also requested and received the certified test reports for these B-7 products. We then forwarded samples of these Chinese products to Materials Technology

which is an A2LA FQA certified lab. A lab that has this accreditation has passed strict audits that prove their results are traceable back to the National Institute of Standards and Technology — NIST.

Materials Technology tested the imported Chinese products and reported 133 failures out of 222 samples tested — an astonishing 60 percent failure rate. In fact, the samples that were tested represented 33 heats altogether — and 29 of the heats failed. This is an incredible 88 percent failure rate. These results are unbelievable because in the normal applications for this product, only a zero failure rate is acceptable.

We also were amazed to see that the test results from the U.S.-accredited laboratory bore absolutely no resemblance to the "certified test reports" furnished by the Chinese factories. This is conclusive evidence that these Chinese companies are not following

the testing requirements of ASTM 193 B-7 specification. This is a case of the bogus bolts in the 1980's all over again.

Also, please note that U.S. importers who sell these Chinese products are not required to test and verify the material. Most U.S. companies in the import supply chain simply use the documents that the foreign producers supply in order to qualify the products.

How do these Chinese companies get away with this?

I called U.S. Customs and Border Protection to alert them to this issue. I spent three weeks calling different people around the country. Finally, I found someone who understood the *Fastener Quality Act* which was originally enacted in 1990. The *Act* was intended to protect public safety by requiring inspection and testing of fasteners sold in the United States to ensure that they are meeting the required specification. The Customs official I spoke to explained to me that

the *Act* has been amended and that any company with an ISO certification is exempt from the *Act*. He suggested that perhaps we could get an Act of Congress to add these products to the list of items that Customs is responsible to check for quality.

The factories in China that Vulcan's team visited were ISO certified. ISO is an international standard for a management system that is complementary to the product requirements. This system should help keep the production processes consistent. It does not establish product requirements.

As I said earlier, this ISO certification exempts all manufacturers from the *Fastener Quality Act*. Given what we have seen, we truly wonder how these Chinese factories receive ISO certification. It obviously does not protect the ultimate purchasers in the United States from 'bogus' products entering our market. ISO in China does not

prevent 'bogus' parts from being used in critical applications where the environment and the lives of our people are at risk and could suffer disastrous consequences if these products failed.

Therefore, it appears to me that Chinese products are coming into the U.S. with falsified documentation. These products are infiltrating the market through importers — who conduct almost no independent testing or verification. Some companies may be purchasing this product in order to cut costs, but without the knowledge that these products fail to meet the required specification.

Further, traceability of the imported products is lost when the threaded rod is cut up and used in many different applications. These products have no identifying marks. The importers bringing in this material are not consistently testing the material. They simply

furnish the Chinese test reports which, in many cases — as we have shown — are wrong and perhaps fraudulent.

Our concern is that these inferior Chinese products will cause multiple disasters over time. In certain applications, a product failure could create a fire hazard, and the cause of the fire would never be known. Even if the cause was determined to be the threaded rod, finding out who produced the product may not be possible because of the lack of traceability. In any event, finding the cause of the disaster after it happens is too late to avoid the damage, injuries, and even deaths that could result.

In addition to the fire hazard, many other potential failures are possible. Bridges could collapse. Pipelines carrying all types of chemicals as well as oil could separate and leak. It doesn't take much

imagination to see many types of potential disasters given the number of important applications of this product.

We believe that importers who bring the ASTM A193 B-7 products from China into this country should be required to have the products tested by independent certified laboratories and they should have to implement traceability procedures. How else will the importers and foreign producers be held accountable for the products they are selling into the United States? These importers have already been notified of these problems, but they are still selling non-spec product to U.S. customers. Only prompt action by Congress in the form of legislation will correct this problem and protect our citizens and their communities from the consequences of these potentially defective products from China.

Thank you.

Vulcan Threaded Products is a manufacturer of threaded steel bars located in Alabama. Vulcan Threaded Products was formed in 1975 and has been producing steel threaded bars since 1977. Our company has focused on being a low cost producer of high quality products. Vulcan Threaded Products has invested heavily in the latest technology to become an efficient, environmentally friendly and low cost factory that can compete anywhere in the world. We have a state-of-the-art heat treating facility with the newest equipment having been commissioned in October 2006.

In November 2006 as a result of the continued deterioration in pricing of both low carbon and ASTM A193 B7 Chinese threaded rod, we sent a team to China to visit Chinese threaded rod factories. The visit was made to determine how China could produce and ship finished products to the United States well below our raw material costs.

The team from Vulcan Threaded Products was shocked with the processing procedures observed during their tour of two Chinese factories. The factories visited, claim to be producing threaded rod that meets the ASTM A193 B-7 specification. ASTM A193 B-7 is an alloy heat treated steel bar that goes into critical application areas such as oil refineries, oil wells, pipe lines, bridges, and power plants, just to name a few. Our concern is that the inferior Chinese produced ASTM A193 B-7 product could jeopardize our national security due to the critical applications of this product in the before mentioned industries. Vulcan Threaded Products feels this is such an important issue that we have cited the problem areas we observed:

1) Vulcan's team saw that the Chinese factories were not using the correct method to produce the product. The factories visited were water quenching threaded material which is not allowed in the ASTM A193 B-7 specification.

2) The two Chinese factories visited do not have the equipment controls necessary to insure consistent quality.

3) The laboratories of the two Chinese factories visited do not have the equipment to fully test the product for certification.

4) The Chinese equipment within the two visited facilities is not built to meet the quality demands of the ASTM A193 B-7 specification. However, these factories continue to export this product to the United States and certify the product as meeting the ASTM A193 B-7 specification.

Upon the return of our team from China, Vulcan Threaded purchased ASTM A193 B-7 Chinese material from a number of domestic importers. The material purchased was from numerous factories in China. Vulcan forwarded the purchased samples to Materials Technology, which as an A2LA FQA outside independent laboratory. Materials Technology tested the product to determine the mechanical properties of the Chinese produced ASTM A193 B-7 material.

Materials Technology reported that a large percentage of the Chinese product failed to meet the ASTM A193 B-7 specification. In addition to the reported failures the test reports from the Chinese factories do not have any resemblance to actual tests results reported by Materials Technology. Also, please note the domestic importers of the Chinese ASTM A193 B-7 product are not required to test or verify that the purchased material meets the specification that they are selling into the critical application industries.

The factories in China we saw have ISO certification which exempts them from the FQA (101-592) specifications. We are not sure what is really done in China to receive an ISO certification. It obviously does not protect our country from these 'bogus' products being used in critical applications where our lives and environment can be so critically affected. Also, we must note the potential huge dollar deficit associated with failures.

We welcome the opportunity to show you Vulcan's factory and further discuss this serious problem affecting the United States.

Following this cover letter are the actual mill certifications on B7 All-Thread rod from several Chinese manufacturers. Each original mill certification from China is followed by the actual test performed on the threaded rod sample by Material's Technology. Material's Technology is an A2LA accredited laboratory. The test on the threaded rod sample from Material's Technology is highlighted in yellow with failures on the physical properties in pink.

Failures on samples performed by Material's Technology did not meet the minimum physical requirements of ASTM A193 B7 as listed below.

Minimum Tensile	= 125,000 psi
Minimum Yield	= 105,000 psi
Minimum Elongation in 4D,	= 16 %
Minimum Reduction of Area,	= 50 %

CERTIFICATE OF INSPECTION

Purchaser: * * *
P.O.NO : 984/001021
NO.: * * *
Manufacturer: NINGBO TIME FASTENER MANUFACTORY CO., LTD.
Address :SANQISHI TOWN,YUYAO,ZHEJIANG,CHINA
Commodity: GR. B7 Fully Thread Studs
Size: 1/4-28×6FT
Lot NO. : * * *
Lot quantity: 1.025MPCS
CONFORMING TO BS EN 10204: 1991 3.1B

Date: DEC,01.2006
ISO NO : 0104Q19209R1M/3302
Expire : NOV,23.2007
Customer part NO. : * * *
Manufacturing date : NOV. 2006
Standard: ASTM A193 Gr. B7
Material: B7
Finish : PLN
Mark : /
Country of Origin: CHINA

NO.1 CHEMICAL ELEMENTS (%) HEAT NO: 620205032103 70

Chemical element	C	Mn	Si	P	S	Cr	Mo
SPEC	0.37	0.65	0.15	max	max	0.75	0.15
	0.49	1.10	0.35	0.035	0.04	1.20	0.25
Test report	0.41	0.86	0.33	0.013	0.007	0.91	0.20

NO.2 MACHINICAL PROPERTIES TEST NO: TF20061110-1

Item	Tensile Strength min(KSI)	Yield Strength min(KSI)	Elongation Min(%)	Reduce Min(%)	Tempering Min(℃)	Quenching (℃)	Hardness Max(HRC)
Standard	125	105	16.00	50.00	593	820--880	35
Test report	129.65	108.96	17.23	55.76	640	860	27

NO.3 TEST SIZE UNIT: INCH

ITEM	LENGTH	MAJOR DIA	GO	NO	T/LENGTH	STRAIGHTNESS	ADD
STANDATD	72.00	0.2490	2A	2A	/	MAX	
	72.25	0.2425	GO	NO-GO	/	0.576	
Test report	OK	OK	OK	OK	/	OK	

NO.4 MICROETCH TEST
S: 1 R:1 C:1
REPORT: ACCEPT
ATT THE PRODUCTS CONTAINS NO MERCURY

NINGBO TIME FASTENER MANUFACTORY CO., LTD.
YAN QIU PING
(SIGNATURE)

MATERIALS TECHNOLOGY INCORPORATED

www.TestMetal.com
213 Lyon Lane
Birmingham, AL 35211
205.940.9480
866.KUN.TEST

REPORT OF ANALYSIS

Vulcan Threaded Products	
Attention: John Roe	
P.O. Box 509	
Pelham, AL 35124	
Test Date:	01/16/2007
Report Date:	01/16/2007
Lab Number:	70142
P. O. Number	P160645-001JH

Sample Identification: (12) 1/4"-20 Threaded Rods, 620205032210370

		SPECIMEN IDENTIFICATION					
Properties	**Unit**	**C/No: 1**	**C/No: 2**	**C/No: 3**	**C/No: 4**	**C/No: 5**	**C/No: 6**
Tensile Properties							
Tensile Strength	psi	162,900	155,100	134,900	143,000	143,800	145,400
Yield Strength (0.2 % offset)	psi	96,600	123,600	109,600	109,300	107,600	112,100
Elongation (Gage =4D)	%	9.8	17	16	17	17	10
Reduction in Area	%	23	56	58	47	34	39
		C/No: 7	**C/No: 8**	**C/No: 9**	**C/No: 15**	**C/No: 16**	**C/No: 17**
Tensile Strength	psi	118,500	106,100	122,200	143,400	120,700	116,200
Yield Strength (0.2 % offset)	psi	104,900	88,500	102,700	112,400	89,500	87,100
Elongation (Gage =4D)	%	22	9.8	22	18	13	21
Reduction in Area	%	57	59	54	54	53	52

Test Method(s): ASTM E8

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

Tests and analysis performed in accordance with procedures derived from methods described and approved by the ASTM and other accepted industry practices. This report shall not be reproduced, except in full, without the prior written approval of Materials Technology, Inc.

Testing efforts were in accordance with MTI QA Program, Rev. 2 –February 15, 2002

CERTIFICATE OF INSPECTION

Purchaser :* * *
P.O.NO :984/001015
NO. :* * *
Manufacturer :NINGBO TIME FASTENERS MANUFACTORTY CO.,LTD
Address :SANQISHI TOWN, YUYAO,ZHEJIANG,CHINA
Commodity :GR. B7 THREAD ROD
Size :3/8-16x36IN
Lot NO. :* * *
Lot quantity :15.95MPCS

Date :OCT,12.2005
ISO NO :0104Q19209R1M/3302
Expire :Nov,23.2007
Customer part NO. :* * *
Manufacturing date :OCT,2005
Standard :ASTM A193-01b Gr. B7
Material :B7
Finish :BLACK
Mark :* * *

NO.1 CHEMICAL ELEMENTS (%) HEAT NO:77020507286932

Chemical element	C	Mn	Si	P	S	Cr	Mo
SPEC	0.37	0.65	0.15	max	max	0.75	0.15
	0.49	1.10	0.35	0.035	0.04	1.20	0.25
Test report	0.40	0.88	0.20	0.014	0.009	0.880	0.180

NO.2 MACHINICAL PROPERTIES TEST NO: TF20051012-3

Item	Tensile Strength min(KSI)	Yield Strength min(KSI)	Elongation Min(%)	Reduce Min(%)	Tempering Min(℃)	Quenching (℃)	Hardness Max(HRC)
Standard	125	105	16.00	50.00	593	820--880	35
Test report	141	121	17.6	53.5	640	860	28

NO.3 TEST SIZE UNIT: INCH

ITEM	LENGTH	MAJOR DIA	GO	NO	T/LTENGTH	STRAIGHTNESS	ADD
STANDATD	36	0.3643	2A	2A	/	MAX	
	37	0.3737	GO	NO-GO	/	0.288	
Test report	OK	OK	OK	OK	/	OK	

NO.4 MICROETCH TEST
S: 1 R:1 C:1
REPORT: ACCEPT
ATT: The product contains no Mercury
Conforming To BS EN10204:1991-3.1B

NINGBO TF MANUFACTORY CO., LTD
CHENG YEBO
(SIGNATURE)

MATERIALS TECHNOLOGY INCORPORATED

www.[illegible].com
213 Lyon Lane
Birmingham, AL 3521[illegible]
205.940.9480
866.RUN.TEST

REPORT OF ANALYSIS

Vulcan Threaded Products
Attention: Jeff Hayes
P.O. Box 509
Pelham, AL 35124

Test Date:	12/12/2006
Report Date:	12/12/2006
Lab Number:	65438
P. O. Number:	P160645-001JH

Sample Identification: (6) 3/8" B7 All Thread Rod Samples

		SPECIMEN IDENTIFICATION					
Properties	**Unit**	**3/8 x 6 Lot # 22392 C1814339**	**3/8 x 3 Lot # 22643 C1830719**	**3/8 x 3 Lot # 22643 C1830722**	**3/8 x 3 Lot # 22916 C1846325**	**3/8 x 6 Lot # 23080 C1854699**	**3/8 x 3 Lot # 23081 C1854706**
Chemical Composition							
Carbon	%	0.41	0.39	0.36	-	0.41	0.38
Silicon	%	0.21	0.28	0.22	-	0.22	0.22
Manganese	%	0.92	0.86	0.91	-	0.91	0.91
Phosphorus	%	0.018	0.013	0.015	-	0.016	0.16
Sulfur	%	0.010	0.008	0.010	-	0.010	0.010
Chromium	%	0.96	0.94	0.93	-	0.93	0.92
Molybdenum	%	0.19	0.18	0.18	-	0.18	0.18
Tensile Properties							
Tensile Strength	psi	118,500	127,400	114,500	144,100	138,000	122,700
Yield Strength (0.2 % offset)	psi	86,100	87,200	75,200	138,600	102,800	82,600
Elongation (2" Gage)	%	24	25	26	16	16	16
Reduction in Area	%	58	54	58	55	27	29
Hardness Testing							
Results	HRC	20	24	18	33	28	20

Test Method(s): ASTM B415, ASTM E8, ASTM E18

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

Tests and analysis performed in accordance with procedures derived from methods described and approved by the ASTM and other accepted industry practices. This report shall not be reproduced, except in full, without the prior written approval of Materials Technology, Inc

Testing efforts were in accordance with MTI QA Program, Rev 3 – February 15, 2002

CERTIFICATE OF INSPECTION

Purchaser :* * *
P.O.NO :984/001016
NO. :* * *
Manufacturer :NINGBO TIME FASTENERS MANUFACTORY CO.,LTD
Address :SANQISHI TOWN,YUYAO,ZHEJIANG,CHINA
Commodity :GR. B7 THREAD ROD
Size :1/2-13x144IN
Lot NO. :* * *
Lot quantity :6.075MPCS

Date :DEC.06.2005
ISO NO :0104Q19209R1M/3302
Expire :Nov.23.2007
Customer part NO. :* * *
Manufacturing date :NOV.2005
Standard :ASTM A193-01b Gr. B7
Material :B7
Finish :BLACK
Mark :* * *

NO.1 CHEMICAL ELEMENTS (%) HEAT NO:S00205071191825

Chemical element	C	Mn	Si	P	S	Cr	Mo
SPEC	0.37	0.65	0.15	max	max	0.75	0.15
	0.49	1.10	0.35	0.035	0.04	1.20	0.25
Test report	0.39	0.80	0.24	0.016	0.011	0.870	0.200

NO.2 MACHINICAL PROPERTIES TEST NO: TF20051206-6

Item	Tensile Strength min(KSI)	Yield Strength min(KSI)	Elongation Min(%)	Reduce Min(%)	Tempering Min(℃)	Quenching (℃)	Hardness Max(HRC)
Standard	125	105	16.00	50.00	593	820--880	35
Test report	140	120	18.5	59.5	640	860	29

NO.3 TEST SIZE UNIT: INCH

ITEM	LENGTH	MAJOR DIA	GO	NO	T/LTENGTH	STRAIGHTNESS	ADD
STANDATD	144	0.4876	2A	2A	/	MAX	
	146	0.4985	GO	NO-GO	/	1.152	
Test report	OK	OK	OK	OK	/	OK	

NO.4 MICROETCH TEST
S:1 R:1 C:1
REPORT: ACCEPT
ATT: The product contains no Mercury
Conforming To BS EN 10204:1991-3.1B

NINGBO TF MANUFACTORY CO., LTD
ZHENG YEBO
(SIGNATURE)

JAN-15-2007 15:12 FAX P.04

MATERIALS TECHNOLOGY INCORPORATED

ww. testmtsi.com
215 Von Lane
Birmingham, AL 35211
205.940.9480
866.RUN.TEST

REPORT OF ANALYSIS

Vulcan Threaded Products	
Attention: Jeff Hayes	
P.O. Box 509	
Pelham, AL 35124	
Test Date:	12/12/2006
Report Date:	12/13/2006
Lab Number:	65455
P. O. Number:	P160645-001JH

Sample Identification: (12) 1/2" B7 All Thread Rod Samples

		SPECIMEN IDENTIFICATION					
Properties	**Unit**	**1/2 x 12 (yz) Lot # 21918 C1925245**	**1/2 x 12 (yz) Lot # 21922 C1835741**	**1/2 x 12 (yz) Lot # 22377 C1848750**	**1/2 x 12 Lot # 22377 C1925241**	**1/2 x 3 Lot # 22595 C2023522**	**1/2 x 6 Lot # 22642 C1830702**
Tensile Properties							
Tensile Strength	psi	135,100	143,700	140,700	146,600	133,400	147,700
Yield Strength (0.2 % offset)	psi	129,500	137,400	129,900	141,000	112,000	143,900
Elongation (2" Gage)	%	22	21	22	17	20	19
Reduction in Area	%	63	61	51	57	56	58
Hardness Testing							
Results	HRC	27	31	30	33	28	34
		1/2 x 6 Lot # 22907 C1845762	**1/2 x 3 (yz) Lot # 22914 C1849667**	**1/2 x 3 Lot # 23069 C1854016**	**1/2 x 6 Lot # 23069 C1854020**	**1/2 x 12 Lot # 23108 C2013809**	**1/2 x 3 Lot # 23141 C1858589**
Tensile Properties							
Tensile Strength	psi	158,800	158,300	113,200	**123,200**	137,000	169,900
Yield Strength (0.2 % offset)	psi	153,500	154,900	87,800	**88,500**	91,000	161,500
Elongation (2" Gage)	%	20	18	19	23	24	18
Reduction in Area	%	55	58	56	54	54	57
Hardness Testing							
Results	HRC	36	35	26	24	28	36

Test Method(s): ASTM E8, ASTM E18

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

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Testing efforts were in accordance with MTI QA Program, Rev. 2 –February 15, 2002

Certification provided by:PFC, To:ALLSPEC FASTENERS Order:32270

CERTIFICATE OF INSPECTION

Purchaser: PFC Date:JULY.2005
P.O.NO: PO14110406 ISO NO: 9001:2000
NO:98017R053132 Expire: JUL.11.2007
Manufacturer: NINGBO TIME FASTENER MANU CO.LTD Customer part NO.: 04170-2803-500
Address: INDUSTRY AREA,SANQISHI TOWN ,YUYAO CITY CHINA
Manufacturing date:JULY.2005
Commodity:GR.B7 THREAD ROD Standard: ASTM A193-01b Gr.B7
Size: 1/2-13X3ET Material: 4140
Lot NO: 24-556-6 Finish: PLN
Lot quantity:1,500MPCS Mark: B7 OIQS

NO.1 CHEMICAL ELEMENTS(%) HEAT NO :200206083

CHEMICAL ELEMENT	C	Mn	Si	P	S	Cr	Mo
STANDARD	0.37	0.65	0.15	max	Max	0.75	0.15
	0.49	1.10	0.35	0.035	0.04	1.20	0.25
TEST REPORT	0.42	0.78	0.23	0.016	0.010	0.91	0.19

NO.2 MACHINICAL PROPERTIES TEST NO:TF20050403-1

ITEM	TENSILE STRENGTH MIN(KSI)	YIELD STRENGTH MIN(KSI)	ELONGATION MIN (%)	REDUCE MIN(%)	TEMPERING MIN(° C)	QUENCHING (° C)	HARDNESS MAX(HRC)
STANDARD	125	105	16.00	50.00	593	820-880	35
TEST	131	111	17.69	55.68	640	850	29

NO.3 TEST SIZE UNIT: INCH

ITEM	LENGTH	MAJOR DIA	GO	NO	THLENGTH	STRAIGHTNESS	ADD
STANDARD	36.25	0.4985	GO	NO-GO	/	MAX	
	35.75	0.4876	2A	2A	/	0.288	
TEST REPORT	OK	OK	OK	OK	/	OK	

NO.4 MACRO ETCH TEST
S:1 R:1 C:1
REPORT: 1.ACCEPT
ATT

NINGBO TF MANUFACTORY CO.LTD
YUAN Y
(SIGNATURE)

MATERIALS TECHNOLOGY INCORPORATED

www.TestMetal.com
213 Lyon Lane
Birmingham, AL 3521
205.940.8480
566.RUN.TEST

REPORT OF ANALYSIS

Vulcan Threaded Products	Test Date: 01/25/2007
Attention: John Roe	Report Date: 01/29/2007
P.O. Box 509	Lab Number: 70355
Pelham, AL 35124	P. O. Number: P160645-001JH

Sample Identification: (6) Test Samples

		SPECIMEN IDENTIFICATION					
Properties	**Unit**	**1/2" PFC050A**	**5/8" HT1625A**	**3/4" HT1075A**	**3/4" PFC075A**	**1" PFC100A**	**1" PFC100I**
Tensile Properties							
Tensile Strength	psi	**120,700**	124,300	128,900	122,200	133,400	130,400
Yield Strength (0.2 % offset)	psi	**84,800**	90,800	108,900	94,600	124,600	121,000
Elongation (Gage =4D)	%	19	20	19	20	18	20
Reduction in Area	%	62	56	60	58	55	61
Hardness Testing							
Mid Radius	HRC	27	25	30	26	29	30
-1/8	HRC	27	22	31	30	29	29
-1/4	HRC	26	23	31	27	30	30
-3/8	HRC	-	-	30	26	30	29
-1/2	HRC	-	-	-	-	32	29
Macrostructure							
Results	-	S-1, R-1, C-1	S-1, R-1, C-1	S-1, R-1, C-1	S-1, R-1, C-1	S-1, R-1, C-1	S-1, R-1, C

Test Method(s): ASTM E8, ASTM E18, ASTM E381

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

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Testing efforts were in accordance with MTI QA Program, Rev. 2 –February 15, 2002

FOR ASTM A193-01a B7 STUDS

DATE:MAY. 01. 2004

FACTORY: JIAXING BROTHER STANDARD PART CO. LTD.
ADD:#12 HAISHENG ROAD, HAIYAN, ZHEJIANG, P. R. C.

MFR LOT NO. 4P104168

CUSTOMER:

PO:P122963-001M

QYT SHIPPED:980PCS

SAMPLING PLAN PER ASTM A193-98a-99 B7 (SA-193-2001-IT)

SIZE & DESCRIPTION :9/16-12X36" PL QNTY: 29PCS PART NO:

HEAD MARKS:

STEEL PROPERTIES:

STEEL GRADE: B7 ALLOY STEEL SIZE:0.551" MILL HEAT NUMBER:31-555

CHEMICAL ELEMENTS: MILL SHEET#38-7-32

CHEMICAL ELEMENTS	C x100	Mn x100	Si x100	P x1000	S x1000	Cr x100	Mo x100
SPECTIFICATION	0.37 0.49	0.65 1.10	0.15 0.35	MAX 0.035	MAX 0.04	0.75 1.20	0.15 0.25
TEST REPORT	0.39	0.94	0.20	0.018	0.011	0.92	0.16

MECHANICAL PROPERTIES: MFR TEST NO. 0001133

ITEM	TENSILE STRENGTH MIN(psi)	YIELD STRENGTH MIN(psi)	ELONGATION MIN(%)	REDUCE MIN(%)	TEMPERING MIN(°C)	QUENCHING (°C)	HARDNESS MAX(HRC)	M
STANDARD	125,000	105,000PSI	16	50	593	820-880	35	PAS
TEST REPORT	137	117	17.5	53.5	640	860	30	

ACID MACRO STRUCTURE				
SCATTERED POROSITY		CENTRE UNSOUNDNESS		PATTERN
0.5	0.5	0.5	0.5	0.5

DIMENSION:

ITEM	LENGTH	MAJOR DIA	GO	NO GO	T/LENGTH	STRAIGHTNESS	ADD
STANDARD	37" 36"	0.561" 0.550"	2A GO	2A NO		MAX 0.18"	
TEST REPORT	OK	OK	OK	OK		OK	OK

REPORT: ACCEPT

PARTS ARE MANUFACTURED AND TESTED IN ACCORDANCE WITH ASTM A193-01a B7
"ALSO MEET THE REQUIREMENTS OF ASME SA-96 SECTION 2" IN YOUR MFR
ALL TESTS IN ACCORDANCE WITH THE METHODS PRESCRIBED IN THE APP
SPECIFICATION. WE CERTIFY THAT THIS DATA IS TRUE REPRESENTATIO ATIO ORD BY
THE MATERIAL SUPPLIES AND OUR TESTING LABORATORY.

(49 TN
138 YS
7/22/04

MATERIALS TECHNOLOGY INCORPORATED

EPORT OF ANALYSIS

Vulcan Threaded Products
Attention: Jeff Hayes
P. O. Box 509
Pelham, AL 35124-

Test Date: 12/14/2006
Report Date: 12/14/2006
Lab Number: 65456
P. O. Number: P160645-00 JH

Sample Identification: 3 - 9/16" BT All Thread Rod Samples

Properties	Unit	SPECIMEN IDENTIFICATION 9/16 x 6 Lot # 16163 C1925293	9/16 x 3 Lot # 18224 C1536206	9/16 x 6 Lot # 18258 C153792
Chemical Composition				
Carbon	%	-	0.10	-
Silicon	%	-	0.13	-
Manganese	%	-	0.49	-
Phosphorus	%	-	0.008	-
Sulfur	%	-	0.041	-
Chromium	%	-	0.05	-
Molybdenum	%	-	0.02	-
Tensile Properties				
Tensile Strength	psi	154,500	92,300	146,800
Yield Strength (0.2 % offset)	psi	149,800	87,900	140,900
Elongation (2" Gage)	%	20	20	21
Reduction in Area	%	59	60	56
Hardness Testing				
Results	HRC	34	17	32

Test Method(s): ASTM E415, ASTM E8, ASTM E18

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

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Testing efforts were in accordance with MTI QA Program, Rev. 2 – February 15, 2002

CERTIFIED MATERIAL TEST REPORT
FOR ASTM A193-01a B7 STUDS

DATE: MAY. 01. 2004

FACTORY: JIAXING BROTHER STANDARD PART CO. LTD.
ADD: #12 HAISHENG ROAD, HAIYAN, ZHEJIANG, P. R. C. MFR LOT NO. IP404138

CUSTOMER: PO: P122963-001A

QTY SHIPPED: 3350PCS

SAMPLING PLAN PER ASTM A193-98a-99 B7 (SA-193-2001-II)

SIZE & DESCRIPTION: 5/16-18X36"PL QNTY: 101PCS PART NO:

HEAD MARKS: _____

STEEL PROPERTIES:

STEEL GRADE: B7 ALLOY STEEL SIZE: 0.354" MILL HEAT NUMBER: 20021459

CHEMICAL ELEMENTS: MILL SHEET#03AT00344

CHEMICAL ELEMENTS	C x100	Mn x100	Si x100	P x1000	S x1000	Cr x100	Mo x100
SPECIFICATION	0.37 0.49	0.65 1.10	0.15 0.35	MAX 0.035	MAX 0.04	0.75 1.20	0.15 0.25
TEST REPORT	0.39	0.77	0.22	0.025	0.007	0.95	0.19

MECHANICAL PROPERTIES: MFR TEST NO. 0000059

ITEM	TENSILE STRENGTH MIN(psi)	YIELD STRENGTH MIN(psi)	ELONGATION MIN(%)	REDUCE MIN(%)	TEMPERING MIN(°C)	QUENCHING (°C)	HARDNESS MAX(HRC)
STANDARD	125,000	105,000PSI	16	50	593	820-880	35
TEST REPORT	144	119	17	53	640	860	20

ACID MACRO STRUCTURE:				
SCATTERED POROSITY		CENTRE UNSOUNDNESS		PATTERN
0.5	0.5	0.5	0.5	0.5

DIMENSION:

ITEM	LENGTH	MAJOR DIA	GO	NO GO	T/LENGTH	STRAIGHTNESS	ADD
STANDARD	37" 36"	0.311" 0.303"	2A GO	2A NO		MAX 0.18"	
TEST REPORT	OK	OK	OK	OK		OK	OK

REPORT: ACCEPT

PARTS ARE MANUFACTURED AND TESTED IN ACCORDANCE WITH ASTM A193-01a B7
AND MEET THE REQUIREMENTS OF ASME SA-95 SECTION 2" IN YOUR MTR.
ALL TESTS IN ACCORDANCE WITH THE METHODS PRESCRIBED IN THE APPLICABLE ASTM SPECIFICATION. WE CERTIFY THAT THIS DATA IS TRUE REPRESENTATION OF INFORMATION PROVIDED BY THE MATERIAL SUPPLIES AND OUR TESTING LABORATORY.



MATERIALS TECHNOLOGY INCORPORATED

REPORT OF ANALYSIS

Unicar Threaded Products	Test Date 12/28/2006
Attention: Jeff Hayes	Report Date 01/04/2007
P O Box 509	Lab Number 55630
Pelham, AL 35124-	P O Number P:606-5-00 UF

Sample Identification:

Properties	Unit	Specimen #1	Specimen #2	Specimen #3	Specimen #4	Specimen #5
		Container # C1535906, Lot # 18198, 5/16				
Tensile Properties						
Tensile Strength	psi	157,000	176,800	185,200	161,200	187,300
Yield Strength (0.2 % offset	psi	132,000	148,900	158,200	132,400	173,400
Elongation (Gage =4D	%	15	14	12	18	11
Reduction in Area	%	42	44	28	57	31
		Container # C1536021, Lot # 18201, 5/16				
		Specimen #1	Specimen #2	Specimen #3	Specimen #4	Specimen #5
Tensile Strength	psi	178,800	175,000	160,300	154,800	160,900
Yield Strength (0.2 % offset	psi	177,600	162,100	140,100	138,600	145,100
Elongation (Gage =4D)	%	14	10	10	12	4.6
Reduction in Area	%	48	44	47	56	52
		Container # C1845498, Lot # 22898, 5/16				
		Specimen #1	Specimen #2	Specimen #3	Specimen #4	Specimen #5
Tensile Strength	psi	144,600	131,700	144,500	154,300	149,400
Yield Strength (0.2 % offset)	psi	139,400	120,600	138,600	148,500	142,700
Elongation (Gage =4D)	%	16	16	14	15	15
Reduction in Area	%	55	53	52	48	48

Test Method(s): ASTM E8

Respectfully Submitted,
Materials Technology, Inc.

Quality Assurance Representative

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Testing efforts were in accordance with MTI QA Program, Rev. 1 –February 15, 2002

JAMAL SIMMONS

Detroit Should Hear From Obama

Nestled between Comerica Park, where the Detroit Tigers play baseball, and Greektown, Detroit's best-known tourist destination, is Harmonie Park, home to restaurants, boutique clothing stores and a bar named Lola's, where some of the city's dwindling middle class gather to hear music and dance.

On a recent Friday night, nearly every car parked outside featured an Obama bumper sticker, and the president's face loomed large over the dance floor from a poster on the wall above the DJ booth. When Michigan had its unsanctioned voting contest during the primaries, Hillary Clinton got more votes in the state but lost every precinct in this city to Barack Obama.

This is Obama Nation.

That's why I was startled to hear such uncertainty about the president from one Detroit resident standing at the bar talking to one of my friends.

"I don't know if we know who we elected last November," she said.

This is still the cradle of the automotive industry, and the woman at the bar was a white-collar autoworker trying to reconcile her support for Obama with her discomfort with the way her industry was being treated. When I listened to autoworkers, union leaders, politicians and activists during a conference in my hometown, it became clear that this woman was not alone in her misgivings about the president's approach to the auto crisis. This may be the time for the president to go to Detroit to help reassure these distressed Americans by addressing their concerns directly.

Everybody paying attention knows the economy in Michigan is bad. The state has the highest unemployment rate in the nation, and in nearly every conversation while I was there, someone brought up the crisis in the automotive industry. While the Chrysler bankruptcy and restructuring will not result in major layoffs, the General Motors restructuring plan could include the loss of 21,000 jobs and a greater reliance on imports once the industry starts to bounce back.

African-American auto dealers face a particular challenge, because GM's plan to cut low-performing auto dealerships will hurt their small ranks significantly if there is not a plan to maintain dealer diversity. According to one dealer and several news reports, many of these businesses were set up in lower-income, higher-risk areas, which make them much more vulnerable in a purely quantitative evaluation. Minority auto suppliers are in similar jeopardy.

Add to these woes the fact that the city has been basically leaderless since Mayor Kwame Kilpatrick was forced to resign and sent to jail. Following a special election last week, Detroit now has its third mayor in eight months.

Despite all of the bad news, Detroiters are a tough bunch. The men in my family, like many others, moved to Detroit from farming fields or the harsh conditions of West Virginia coal mines because forging metal in a hot furnace in the foundry was better work at better pay. These are not people who need coddling, but they do appreciate straight talk. Nobody I spoke with expects the auto industry to return to its previous role as a central driver of the national economy, but they do want to know what role it will have. They also want to know what other types of jobs and training to pursue to prepare for this new world.

There were two criticisms I heard most often about the president's approach. First, there is frustration that the auto industry's treatment seems harsher than that of the banking industry, even though the bankers on Wall Street started this economic mess. Tough love is hard to take after 30 years of tough luck.

Second, people sound disappointed that the president is making decisions from the White House without coming to the region to talk directly with the people the decisions will affect. The president has sent representatives to the state, including auto recovery czar Ed Montgomery just last week, but they're not the ones people voted for.

Obama has been criticized for giving long and professorial answers at news conferences, but the president's strength has always been his ability to look the American people in the eye and walk through tough topics in a way most people can understand. People trust him to be honest, even if he is delivering tough medicine.

A town hall meeting with auto workers, store owners and homeowners in Detroit, where he can empathize with their situation, listen to their questions and offer solutions, would go a long way to restoring the "Yes, we can" spirit of some of his core supporters.

Jamal Simmons was a Clinton administration political appointee and an adviser to the Democratic National Committee and the Obama-Biden campaign in 2008.

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