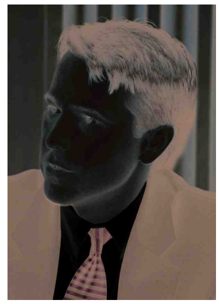
A Surface Finishing Government Relations Update

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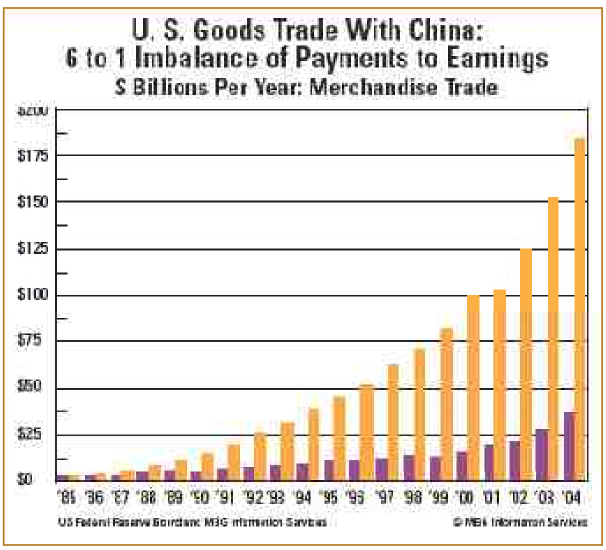


Globalization and Trade: Current Policies Need Review

The recent economic recovery has lifted some segments of the nation's manufacturing base, but gains remain modest and uneven at best. Moreover, the prospects for a substantial future rebound of America's manufacturing prowess are highly uncertain, and recent trends are troubling. Even with the laudable economic progress the nation has made since the recession, manufacturing is still down 2.5 million jobs. The U.S. trade deficit just for the month of February was $60 billion and will likely continue to skyrocket to record annual levels in 2005.

Free Trade Must Mean "Fair Trade"

Our industrial production and R&D commitments in both basic manufactured goods and advanced technology products are slipping away, and some of our major trading partners – such as China – are enjoying immense economic benefits by boldly eluding their commitments to the existing global trade regime on issues ranging from intellectual property rights and illegal government subsidies to currency manipulation that severely tilts the competitive balance away from U.S.-based manufacturing operations.

The finishing industry vigorously supports the principles of free trade, but it also demands we have fair trade. We have practical, not ideological, questions about whether we are pursuing the right mix of trade, economic and manufacturing policies.

Indeed, during the Senate Finance Committee's April 2005 hearing to nominate Ohio Congressman Rob Portman as the U.S. Trade Representative, Committee Chairman Charles Grassley (R-IA) and Ranking Minority Member Max Baucus (D-MT) gave Mr. Portman high marks as a well-qualified candidate for the nation's top trade advisor and negotiator. Yet both Senators voiced serious concerns over whether the U.S. is truly benefiting by our current policy approach to global trade and manufacturing.

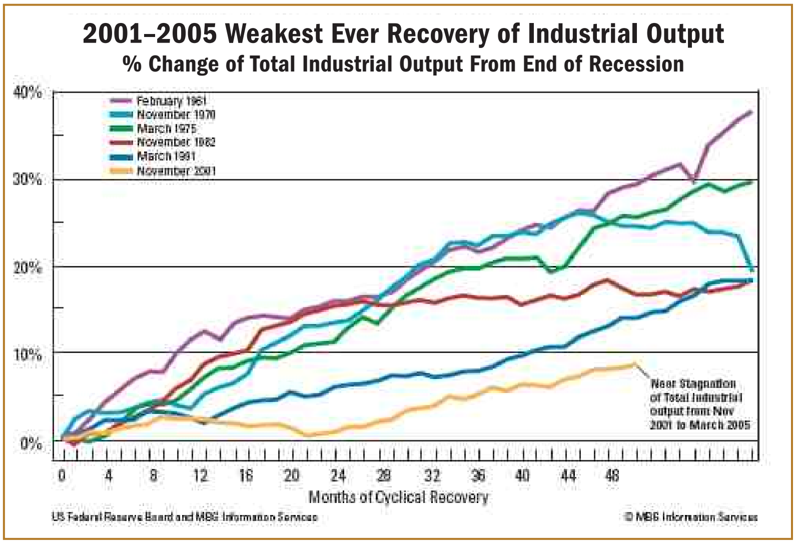
Another emerging policy milestone is the discussion in Congress over passage of the Central American Free Trade Agreement (CAFTA). Opposition from members of both parties reflects the fact that legitimate questions are now being voiced on Capitol Hill about how well the nation is fairing under the rapid pace of global economic integration, and whether U.S. trade policies and actions with our trading partners are working effectively.

Recent Trends in Surface Finishing

The transformation of the global marketplace continues to reshape and place intense competitive demands on the surface coatings industry. The finishing sector's recent experience aligns with important trends in the larger manufacturing base. A recent informal survey of metal finishing firms shows some niche sectors improving, with many small to medium-sized companies responding to lost markets either by shedding jobs to survive or by pursuing high risk business opportunities in China and elsewhere.

On other fronts, the finishing industry has seen a substantial surge in bankruptcies, although some segments of the industry have been boosted by demand from large global customers, such as U.S.-based Japanese and European automotive facilities. The shift overseas of high volume production runs for millions of product lines by large multinationals has left many U.S. finishing firms doing mainly prototype and design work that will ultimately be produced in low-wage countries. As a consequence, the finishing industry has shed approximately 50,000 – 70,000 jobs in the past several years.

This month's article is exerpted from the Government Relations "Issue Brief" to be distributed to policy makers during the industry's May 11–12, "Washington Forum."



Congress and the Administration Must Engage in New Discussion

Like others in the U.S. manufacturing community, the finishing industry doesn't want protection – we simply want fair competition. Our industry will continue to innovate, compete and pursue new strategies for success. But all the innovation in the world means little if our competitors are enjoying unfair advantages by participating in international trading institutions while at the same time undermining them without consequence.

Now is the time for Congress and the Administration to engage in a serious discussion about the future of the U.S. economy, the role of new policy approaches to ensuring a vibrant manufacturing base, and U.S. options for more aggressive action to halt our competitors' trading practices that severely and unjustifiably harm the nation's manufacturing base. The time to act is NOW!

Energy Policy and Manufacturing Competitiveness

The finishing industry supports passage of energy legislation in the 109th Congress that will improve American competitiveness by increasing energy supplies, improving the reliability of the transmission and distribution infrastructure, and reducing the cost of oil and natural gas. The U.S. finishing industry uses natural gas and electricity to keep facilities and production operations running, and relies on reasonably priced gasoline for product shipments and related business activities.

The energy bill – HR 6 – sponsored by Energy and Commerce Committee Chairman Joe Barton (R-TX) and passed by the House, is a solid first step toward enhancing the nation's manufacturing competitiveness. Overall, U.S. manufacturers consume about 30% of the nation's electricity and 40% of its natural gas. Recent experience, including the August 2003 blackout, prompts the finishing industry to have a critical interest in the commitment of resources in the area of energy that impact our competitiveness, productivity and profitability.

While Congress must continue to work to address a wide array of manufacturing challenges – including reasonable reforms to U.S. tax policy, the tort system, health care and the high cost of regulation – sound energy policy changes in the near term will boost the health of industrial energy consumers as well as the overall jobs picture.

Natural Gas Prices—Responsible Access to Domestic Supplies

On natural gas policy in particular, it is important that Congress consider action that will right the balance in the current domestic supply shortage and high U.S. prices for natural gas. Although the "supply gap" for manufacturing has widened in recent years, the U.S. has ample domestic natural gas sources but current federal moratoria on natural gas exploration in the Outer Continental Shelf prohibits access to these supplies. This, along with related factors, is part of the reason why natural gas prices are 344% of 1998 levels and the highest in the world, recently reaching $7 per million BTUs at the wholesale price. In the meantime, from 2001 to 2004, U.S. production declined by 4.9% and Canadian imports of natural gas fell by 19%.

We recognize that tackling this problem is not easy. We support a solution that addresses policy options on both the supply and demand sides of the equation that are cost effective and environmentally responsible. Opponents of tapping domestic natural gas sources are right to raise concerns, including potential environmental degradation of marine resources. However, history shows that the natural gas drilling record on the environmental front has been successful, and poses a lower risk than oil tankers.

Senator Lamar Alexander (R-TN) recently introduced legislation, "The Natural Gas Price Reduction Act of 2005," in an effort to solve what some observers have called a "crisis" in the natural gas area. We support this and related legislation aimed at removing barriers in order to increase the affordability and reliability of energy – especially natural gas.

Natural Gas Markets—Reduce Volatility and Exercise Market Oversight

One of the problems in the natural gas area receiving insufficient attention lately is the fact that natural gas prices – by a long shot – are the most volatile commodity in the world. More fundamentally, the price of natural gas is often separated from the fundamentals of supply and demand. Manufacturers and energy producers are disadvantaged by the current situation, although traders, speculators and trading exchanges potentially reap massive benefits. Global hedge funds and other market players that cannot even be identified have the potential to manipulate the market and encourage wide commodity price swings.

Bringing this unnecessary price volatility back into line, along with the lack of transparency in trading that encourages it, requires two simple actions: (1) a requirement for reasonable trading limits; and (2) restoring much of the market oversight exercised by the Commodity Futures Trading Commission (CFTC) prior to the enactment of the Commodity Futures Modernization Act of 2000 (CFMA).

The House-passed energy bill's provisions designed to address the highly speculative features of natural gas markets do not go far enough. The finishing industry supports more aggressive legislation (HR 1638) sponsored by Congressmen Sam Graves (R-MO) and John Barrow (D-GA) that would offer a practical and immediate solution by establishing both reasonable trading limits and restoring CFTC oversight. The bill would not impede the ability of market players to buy or sell energy products, but would encourage transparency, boost efficiency in the market and prevent costly abuse that hampers U.S. manufacturing competitiveness.