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Industry Engages Capitol Hill on Global Issues for Surface Finishing

Latest from the 2008 NASF Washington Forum

The 2008 NASF Washington Forum in April was once again a tremendous opportunity for finishing companies and suppliers to exchange on major policy issues impacting the industry. It was also an opportunity for attendees to spend some time with lawmakers and their staff on Capitol Hill discussing the industry's concerns and solutions. While the Forum covered a wide range of economics, technology and global regulatory topics, below are some of the briefing issues that informed nearly 100 meetings between the surface finishing industry and members of Congress. More to come shortly . . .

Globalization, Domestic Overhead Costs and Trade

The transformation of the global marketplace continues to place intense competitive demands on the surface coatings industry. The U.S. economy was showing steady gains until recently, and small manufacturers like surface finishers are now finding it harder to gain ground. The industry's sales and profits partially recovered since 2002, but many companies have exited the industry and average profits for finishers servicing their customers in key sectors do not approach previous levels.

The industry is smaller, leaner and more productive than ever yet still faces a profit squeeze. Low cost overseas competition and lower global prices for manufactured goods are major constraints on profitability. Equally important is the unabated trend of higher overhead costs for doing business in the U.S. Finishing firms are forced to spend at historic levels to cover "nonproduction" costs that cannot easily be passed on and over which they have little or no control. These include:

Energy;
Metals;
Health insurance;
Regulation; and
Taxes.

Finishers are responding in various ways to effectively manage some of these costs where possible. Health coverage is the most manageable, only because companies have the option of taking the unfortunate step of cutting benefits or sharing more of the financial burden with their employees.

Cost Disadvantages for Manufacturers Warrant Action

The finishing industry's experience continues to track closely with the conclusions of the 2006 MAPI study, *The Escalating Cost Crisis*. This report concluded that not only do structural, excess overhead costs put U.S. manufacturers at a cost disadvantage versus our global trading partners, but these cost pressures were recently estimated to be 42 percent higher for firms than in 2003! The bottom line is that U.S. manufacturers have been operating with an estimated 30 percent cost disadvantage versus their overseas competitors. The falling U.S. dollar has only partly mitigated this vulnerability.

While finishers are taking steps to remain competitive, even the most innovative strategies may mean little in the long run without a significant policy correction. While Congress in the past few years has attempted to address health, energy, tax and related issues, we urge Congress to work closely with us to better assess small manufacturing needs in these areas and plot an effective legislative course forward. Opening up domestic natural gas sources, pausing the increase in regulatory burdens shouldered by small manufacturers and addressing the relentless growth in health insurance costs are a good start. On trade policy, our message is the same — we will make little progress in the long run if our competitors benefit by participating in international trading institutions like the WTO while at the same time undermining them without consequence. The finishing industry doesn't favor a protectionist approach — we simply want a more level playing field, and we want our competitors to play by the same rules we do.

Energy Policy, Climate Change and Small Manufacturing Competitiveness

The 110th Congress is wrestling with major issues related to the nation's energy future and plans to act on major climate change legislation. Major issues are under review, including reducing carbon emissions through a cap and trade system or other measures, expanding the use of cleaner technologies, incentivizing and mandating energy efficiency and strengthening U.S. energy security. As legislative options are considered this year, the surface finishing industry urges Congress to improve, not diminish, U.S. small manufacturing competitiveness. U.S. manufacturers consume about 30% of the nation's electricity and 40% of its natural gas. Surface finishing companies use natural gas and electricity to run facilities and keep production operations running, and rely on reasonably priced gasoline to ship products. On the demand side of the energy equation, the industry has a track record of diligence in pursuing energy efficiency gains and their associated cost savings, including partnering with the US EPA to benchmark energy efficiencies at our plants. On the supply side, finishers have looked for relief from skyrocketing energy prices in recent years as Congress worked to enact major energy legislation in 2005 and 2007.

Relief Still Needed from High Energy Prices

Yet high energy prices continue to impact U.S.-based operations in the finishing and chemical supplier industries. In recent years, natural gas cost increases in real terms have ranged from 60% to 80% for many finishers. Although during 2007 prices subsided slightly, they have escalated 30% since December and remain a serious problem when added to current price burdens for metals and other commodities used in surface finishing. Some firms are able to pass through energy cost increases via surcharges on their industrial customers. But most small firms cannot and are forced to absorb higher prices on their balance sheets.

The extra cost penalty on energy for U.S. manufacturers comes at a time when our global competitors enjoy subsidized energy and other benefits to make and export their products. Indeed, high natural gas and other commodity costs have contributed to the nation's shrinking manufacturing base. It's arguable that one reason the U.S. is not forced to ration natural gas today is that the manufacturing sector has reduced its natural gas consumption by nearly 25 percent in the last 6 years through plant closures. This has freed up more than 1.5 trillion cubic feet of natural gas for other consuming sectors.

High natural gas prices are largely a function of the domestic supply shortage. It's important that Congress act to right this imbalance. The "supply gap" and its impacts on small manufacturing are worsening, even while the U.S. has ample domestic natural gas sources. While Congress recently opened up some areas to leasing in the Gulf of Mexico, production there is still several years away. Meanwhile, the U.S. Geological Service reports that less than 5 percent of U.S. federal lands are used for oil and gas production.

We urge Congress to address the energy price burden in both a cost effective and environmentally responsible way. Opponents of tapping domestic natural gas sources have raised a range of concerns, including the potential for environmental degradation. The facts show that the natural gas drilling record is an unparalleled success from an environmental standpoint.

Climate Change Legislation and Small Manufacturing

Congress intends to advance climate change legislation in the coming months. We urge lawmakers to recognize the potentially significant impacts of the Lieberman-Warner bill (S.2191) on small, U.S.-based manufacturers. Surface finishing operations are small energy users relative to the steel, aluminum, utility and other sectors and are insignificant contributors of carbon emissions. While small finishing operations will avoid the GHG reduction mandates a cap and trade system would impose on major manufacturing sectors, we are troubled by the potentially severe cost impacts that S. 2191 would have on the energy used to produce the chemicals we use, ship our parts and operate our coatings lines. The potential burdens for small energy users prompted by Lieberman-Warner, when added to the price problems we already face, would further erode our financial viability and favor our overseas competitors. At present, S.2191 would give our key Asian trading partners an extra 10 years to begin reducing carbon after proposed mandates are triggered in 2012. It's unreasonable and self-defeating to give a pass to other nations who are not moving to reduce their own carbon emissions.

Action: Congress must act to increase access to our nation's natural gas supplies and minimize impacts of future climate change legislation on U.S. manufacturers.

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