Summary

American Axle & Manufacturing

Testimony before the House Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade

Wednesday, April 10, 2013

Background

Manufacturers are ready to power the economy. With the right policies in place, we will transform a difficult and sluggish recovery into an economic resurgence. After all, manufacturing has the highest multiplier effect of any other sector of our economy. Investments in manufacturing multiply across the economy, creating jobs and growth in other sectors.

Key Areas

Corporate Tax Reform: The United States now has the dubious distinction of having the highest corporate income tax rate among the nations in the Organization for Economic Co-operation and Development (OECD) after surpassing Japan in 2012. Around the world, countries are lowering corporate tax rates, often dramatically. We need Congress to consider reducing the corporate tax rate to a level that will make the United States competitive with our major trading partners and recognize the significant reductions made by competing nations.

Energy: Energy is now becoming a significant competitive advantage for manufacturing in the United States. In fact, the United States enjoys a slight advantage on energy costs compared to our major trading partners. We need to embrace every energy resource at our disposal, both traditional and alternative sources including: natural gas, oil, coal, nuclear, wind, solar, hydropower, biomass, energy efficiency and all other technologies that may be harnessed now and in the future. We need to standardize and streamline regulations, policies and permitting to provide access to traditional energy resources, electricity generation and the expansion of renewable and alternative energy.

R&D: We need a stable, forward looking R&D incentive permanently in place to guide our budgeting decisions as to the best global locations to carry out our Research and Development activities. Let's make that location the United States with a permanent incentive program.

Trade Agreements: The United States needs to establish global trade policies that open international markets, enhance competitiveness and reduce regulatory and tariff barriers.

Workforce Training and Skills: World-class manufacturing demands world-class talent. Our workforce must be proficient in science, technology, engineering and mathematics (STEM) and possess the skills that match our level of technology. Our manufacturing workforce of today is required to understand basic Statistical Process Control Techniques, Value Stream Mapping, Basic Machine Maintenance Duties, Inventory Control procedures and numerous other skills to maintain our competitive position. We need to put a national focus on increasing proficiency in STEM education, and start generating interest in manufacturing careers much earlier in our education systems to develop the powerful skilled workforce demanded by today's technology.

William A. Smith – Executive Director, Government Affairs & Community Relations
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Good morning, and thank you, Chairman Terry, Ranking Member Schakowsky, and Committee members for providing this opportunity to present some issues we face in Automotive Manufacturing - along with some proposed solutions. My name is Bill Smith, and I am Executive Director of Government Affairs and Community Relations for American Axle & Manufacturing, or AAM, a tier one automotive supplier headquartered in Detroit, Michigan.

AAM is a $3 Billion, supplier of driveline and drivetrain systems and related components for light trucks, SUVs, passenger cars, crossover vehicles and commercial vehicles with a regionally cost competitive and operationally flexible global manufacturing, engineering and sourcing footprint. Through our highly-engineered, advanced technology products, processes and systems and industry leading operating performance, the AAM team provides a highly competitive advantage to our customers.

AAM's global footprint includes more than thirty (30) locations across four continents; specifically, North America, South America, Asia and Europe. Twelve (12) of our facilities are located in the United States. We have invested over $2.3 Billion in these facilities in Michigan, Ohio, and Indiana. And, at this exact time, we are in the middle of a $100 million investment in new tooling and equipment at our Three Rivers, Michigan facility which is resulting in the launch of an industry leading disconnecting all-wheel drive system. This new, high technology system will provide enhanced fuel economy and safety over existing driveline systems in the industry. We currently employ 2,981 associates in the USA to which this new Michigan project will be adding approximately 500 additional associates. This brings our US total to nearly 3,500 associates. We also employ another 8,400 associates globally bringing our grand total to 11,381 associates.

I have worked for AAM since 2005, and have had the pleasure of starting up new manufacturing operations in China as President of AAM China, and then in Poland as Managing Director of AAM Europe. Additionally I have worked throughout AAM as a Lean Manufacturing trainer and advisor and now in my current role I am working with Economic Development Teams to smooth the path to global growth for AAM. Prior to my work at AAM, I spent 11 years at General Motors, 6 years at Allied Signal Automotive, 10 years at Chrysler, and 10 years at another NYSE diversified Global Manufacturing Company. This provided me with over 45 years of hardcore manufacturing experience, of which almost 11 years were spent overseas. So, like the other panel members here before you, manufacturing is also my world, and more specifically, automotive manufacturing.

I am truly honored to be here today representing the profession of automotive manufacturing. With four and a half decades of automotive experience under my belt, I carry with me a passion for manufacturing and the automotive industry. I feel that manufacturing is one of the key engines that will drive our economy to the next level. It is the backbone of where jobs are created … where you create wealth … and where you help sustain communities.

The proof is in the numbers. Let me provide some current facts and data:

- Across our nation, 12 million Americans are employed directly in manufacturing jobs.
- Taken alone, manufacturing in the United States would be the 10th largest economy in the world.
- For every dollar invested in manufacturing, $1.48 is added to the economy – the highest multiplier of any economic sector.
- Manufacturing value-added continues to grow, rising from $1.42 trillion in 2000 to $1.73 trillion in 2011, or 11.5 percent of Gross domestic product.
- Manufacturers in the United States perform two-thirds of all private-sector R&D in the nation, driving more innovation than any other sector.

- Manufactured goods exports account for approximately 61 percent of our total exports.
- However, our competitiveness is slipping, so much so, that it is now **20 percent more expensive** to manufacture in the United States compared to our competitors primarily due to our policies on taxes, energy, tort and trade.

Manufacturers are ready to power the economy. With the right policies in place, we will transform a difficult and sluggish recovery into an economic resurgence. After all, manufacturing has the highest multiplier effect of any other sector of our economy. Investments in manufacturing multiply across the economy, creating jobs and growth in other sectors. Simply put, manufacturing makes America strong.

I would like to offer five key areas upon which we can focus to improve our manufacturing competitiveness in the United States.

1. Corporate Tax Reform
2. Energy
3. R&D Incentive
4. Trade Agreements
5. Workforce Training

<u>Starting with Corporate Tax Reform</u> –

The United States now has the dubious distinction of having the highest corporate income tax rate among the nations in the Organization for Economic Co-operation and Development (OECD) after surpassing Japan in 2012. Around the world, countries are lowering corporate tax rates, often dramatically.

We need to create a national tax climate that enhances the global competitiveness of manufacturers in the United States and avoid policy changes that would increase the tax burden on the manufacturing sector, discouraging job creation and investment. We need Congress to

consider reducing the corporate tax rate to a level that will make the United States competitive with our major trading partners and recognize the significant reductions made by competing nations.

And in the area of Energy –

Energy is now becoming a significant competitive advantage for manufacturing in the United States. In fact, the United States enjoys a slight advantage on energy costs compared to our major trading partners. The United States can widen this gap and enhance our energy security.

We need to embrace every energy resource at our disposal, both traditional and alternative sources including: natural gas, oil, coal, nuclear, wind, solar, hydropower, biomass, energy efficiency and all other technologies that may be harnessed now and in the future.

We need to strengthen our energy infrastructure to accommodate growing energy resources, with steps such as approving construction of new domestic and cross-border pipelines and new transmission lines and expanding energy-related transportation infrastructure. Also, standardize and streamline regulations, policies and permitting to provide access to traditional energy resources, electricity generation and the expansion of renewable and alternative energy.

And finally, take advantage of new opportunities to develop energy resources, such as unconventional oil and natural gas formations across North America.

Moving to R&D -

Innovation propelled the United States to its global leadership position in manufacturing. But other nations are eager to take our place and are establishing R&D incentives that are far more attractive than those offered by the United States. To maintain its mantle of leadership, the United States must adopt policies that will attract and retain R&D activities.

If the United States is to continue to be the global leader in innovation, we must provide a strong, permanent and competitive research and development (R&D) incentive. We cannot continue the practice of allowing this important incentive to expire, and then be retroactively reinstated. AAM establishes our annual competitive budgets based upon policies in place at the time, and we need a stable, forward looking R&D incentive in place to guide our budgeting decisions as to the best global locations to carry out our Research and Development activities. Let's make that location the United States with a permanent incentive program

Regarding Trade Agreements -

I am sure that you are aware that our neighbor to the south, Mexico, now has 12 Free Trade Agreements with 44 countries in place and operating. This is more than any other country in the world. The United States needs to establish global trade policies that open international markets, enhance competitiveness and reduce regulatory and tariff barriers.

Moving on to Workforce Training and Skills gap –

World-class manufacturing demands world-class talent. Our workforce must be proficient in science, technology, engineering and mathematics (STEM) and possess the skills that match our level of technology. I mentioned earlier that AAM is hiring approximately 500 new associates right now at our Three Rivers, Michigan facility. Due to skills mismatch, we are only able to hire 1 in 3 applicants for our manufacturing assembly positions, and then find that 1 in 4 of the hired associates is unable to make the step to permanent employment. In The State of Michigan there are currently has 60,000 unfilled jobs due to skill set mismatch. And taking that one step further, on a national level, more than 600,000 manufacturing jobs are unfilled because workers don't have the right skills—this skills gap threatens U.S. competitiveness. Due to my experience, I can tell you with certainty that this is not the case in other countries. For example, in China, every associate I hired had at least a 3 year technical degree, and these were the associates who worked our axle assembly lines.

Our manufacturing workforce of today is required to understand basic Statistical Process Control Techniques, Value Stream Mapping, Basic Machine Maintenance Duties, Inventory Control procedures and numerous other skills to maintain our competitive position.

We need to put a national focus on increasing proficiency in STEM education and start generating interest in manufacturing careers much earlier in our education systems to develop the powerful skilled workforce demanded by today's technology.

In summary, we need your help in supporting and enacting policies to address Corporate Tax Reform, Energy Policy, R&D Incentives, Foreign Trade Agreements, and the Workforce Skills Gap. It is our belief at AAM, that actions in these key areas will improve our manufacturing competitiveness and stimulate economic growth and job creation in the United States.

Thank you for the opportunity to speak at this hearing.