



UNITED STATES MANUFACTURING COUNCIL

October 15, 2014

The Honorable Penny Pritzker
Secretary of Commerce
U.S. Department of Commerce
Washington, DC 20230

Dear Madam Secretary:

We are honored to support the Department of Commerce by serving on the United States Manufacturing Council. We take our objective seriously to identify and recommend ways the federal government can respond to the challenges facing U.S. manufacturers to ensure our competitiveness at home and globally. Our Council represents a diversity of American manufacturing industry sectors. It has developed actionable, measurable recommendations, which we have submitted for your consideration.

As chair and vice-chair of the Manufacturing Council, we want to provide you with an Executive Summary of the Council's recommendations as we conclude our current 2013-2014 term.

Workforce Development

Building on the work of previous Manufacturing Councils, we have taken a forward-looking approach with our recommendations. This Council both considered the emphasis that previous Councils placed on skills necessary for advanced manufacturing, and also examined the public misperception of manufacturing: layoffs, automation reducing overall employment, diminished career opportunities and other attributes associated with a declining industry. Our work began with the realization that the public struggles to understand contemporary, sophisticated advanced manufacturing and its technical requirements.

Building upon the Council's letter dated April 29, 2014, we offer two specific and actionable recommendations for consideration:

1. **National Campaign for Manufacturing:** Engage manufacturers via the Manufacturing Institute to lead the development of an integrated, national campaign to correct misperceptions and promote the benefits of career opportunities within American manufacturing.

We recommend partnering industry and marketing experts to establish a cohesive, national multimedia campaign that integrates traditional advertising, public relations,

social media and experiential curriculum in schools. The development of the campaign will be facilitated by the Manufacturing Institute and designed to create interest in industrial technology careers. The goal is to change perceptions of manufacturing by demonstrating how STEM skills apply to high-tech careers serving manufacturing industries that are essential to everyday life.

Core message: *Manufacturing = Technology*. Manufacturing provides an entry ticket to lifelong education and rewarding careers for millions of Americans. Its highly skilled technicians utilize advanced equipment to design, develop and produce products and technologies that make America the world's leading innovator. These technicians are driving a new industrial revolution, creating and patenting ideas that bring vital advancements to the world. Positioning manufacturing as ***advanced industrial technology*** portrays the sector as a meaningful, creative and rewarding career choice for America's future.

2. **America Innovates Manufacturing Skills for Workforce Development**: Establish a workforce development collaboration initiative led by the U.S. Department of Commerce (possibly within the NIST MEPs) to promote a culture of industry-led partnerships with workforce and education stakeholders for the development of technically relevant and targeted programs.

We recommend Commerce launch this initiative to ensure close collaboration between industry and workforce program providers to support highly effective workforce development programs. A suggested name for this initiative is America Innovates Manufacturing Skills (AIMS) for Workforce Development. The AIMS initiative would:

- **Reinforce and promote industry-endorsed criteria** for effective workforce development programs and funding prioritization.
- **Promote best-practice models and resources** via the Manufacturing Institute.
- **Field an AIMS National Competition** to fund effective workforce development programs facilitated by Commerce with active industry engagement.

Tax Policy and Export Growth

Due to the highest effective tax rates globally, U.S. manufacturers are at a competitive disadvantage. Our review has concluded that it's critically important to modify corporate tax rates to a more globally competitive rate. We believe this will increase manufacturing jobs, grow the manufacturing sector due to reinvestment and increase exports. Additionally, the manufacturing multiplier effect creates additional jobs in R&D, logistics, transportation and the supply chain.

Our work also identified special challenges for S corporations, family-owned businesses, and small and medium enterprises (SME) that are organized as pass-through tax entities. Tax rate challenges are amplified by high tax rates imposed on pass-through entities whose income is taxed at a regular income earnings rate. The Council's tax policy recommendations request that the Administration and Congress implement the following strategies to make the U.S. tax environment less of a global competitive disadvantage to manufacturers by:

- Moving to a hybrid tax system for taxing the revenue generated outside of the U.S. by multinational firms.
- Reducing the nominal tax rate for corporations to 25% or less.
- Making permanent and where possible strengthening tax deductions and incentives such as Sect. 179, Sect. 199 and the R&E Tax Credit.

In our most current letter of recommendation regarding exports, the Council offers the following policy recommendations to support growth in U.S. exports:

- Ensure that existing export promotion assistance at the Department of Commerce remains affordable to U.S. manufacturers,
- Negotiate new, and enforce existing, free trade agreements in ways that address the competitive challenges of the 21st century,
- Reauthorize and increase the budget allocated to the U.S. Export-Import Bank, and
- Modernize and renew the African Growth and Opportunity Act (AGOA).

We believe that the Department of Commerce can provide additional support that will have a significant impact on businesses of all sizes, including:

- Broaden and coordinate efforts of the Manufacturing Extension Partnership (MEP)/National Network for Manufacturing Innovation (NNMI) to further assist exporters.
- Clarify the applicability of “Buy America Act” requirements.

While the U.S. is still the world’s largest manufacturer, the U.S. manufacturing industry on average exports only half of other major manufacturing economies. Further, while ninety-seven percent of all U.S. exporters are SMEs, they typically export to only one or two countries. The Council believes that our recommendations will assist U.S. manufacturers in increasing their export capacity and capability.

Innovation, Research & Development

There’s an important nexus between manufacturing and innovation. More than half of the STEM-related PhDs in the U.S. are employed in manufacturing, focused on research, development and advanced manufacturing practices.

To ensure that innovation continues to drive manufacturing, as well as the reverse, we have identified the following key findings upon which we base our recommendations:

1. The U.S. needs a clear, explicit and diverse manufacturing innovation strategy that is visibly integrated across participating federal agencies. We recommend that the Department of Commerce lead this effort.
2. U.S. spending on manufacturing research and development (R&D) is critically important to realize value from investments in product and material innovation. However, research in enabling process and technologies for advanced manufacturing often fails to keep pace with product development research. This contributes to product manufacturing being performed in other countries and the loss of U.S. jobs.

3. Many U.S. companies, especially SMEs, need to become more deeply engaged in the U.S. manufacturing and R&D infrastructure. They need greater knowledge and increased visibility within the range of existing government programs related to procurement, innovation, research and development, and further exposure to manufacturing technology, processes and innovation.
4. Manufacturers need a widely recognized single mechanism that could provide visibility of current U.S. manufacturing capabilities among public and private sector procurement officials.

The Council offers the following recommendations, which are based on these findings and support a strategy to strengthen American manufacturing.

1. Designate that federal manufacturing innovation programs become an Inter-agency Science and Technology Initiative, by executive decree.
2. Foster research and development that enables manufacturing processes and technologies to be expanded and optimized by evolving the role of national labs and strengthening the National Network for Manufacturing Innovation (NNMI) program with continued funding and coordination.
3. Improve the framework for collaboration and teambuilding within and between the public and private sectors.
4. Facilitate early supply chain creation for new innovation.
5. Expand connections for collaboration and commercialization of technologies.

Underpinning these recommendations is the need for long-term, sustained funding and policy focus on manufacturing innovation. Going forward, the Council recommends two areas of focus to protect our innovations and accelerate future developments.

1. Intellectual Property and How Best to Safeguard It

- Advocate for a fully funded and self-sustained U.S. Patent and Trademark Office (USPTO).
- Strongly encourage the president to nominate and pursue Senate confirmation for a permanent director of the USPTO.
- Increase efforts to protect U.S. manufacturers' trade secrets. Trade secrets play a crucial role in the U.S. economy and are increasingly important to U.S. manufacturers, but they receive inadequate protection in many markets.

2. Use "Incentive Prizes" to Increase the Pace of Innovation

- Encourage the Department of Commerce to use "incentive prizes" to address significant manufacturing innovation challenges.
- Explore the use of incentive prizes to develop an online National Advanced Manufacturing Collaboration Capability Directory.

Energy

As reported by the Alliance to Save Energy in its presentation to the House Committee on Ways and Means in 2013, "manufacturing is vital to American economic well-being, accounting for over 11% of GDP, 60% of exports, and directly employing nearly 12 million with above-average wages and benefits". The economic impact is significant and incorporates many facilities and

manufacturing locations. The cost and availability of energy plays a vital role in the success and global competitiveness of manufacturing in the U.S. as the sector consumes 26 quadrillion Btu or about 27% of the national energy use.

In order for small and large U.S. manufacturing firms to remain competitive in global markets, a sound energy strategy is critical. While the recent natural gas finds have enabled a low-cost and abundant energy source option, it is important that we understand and protect this resource as it can provide a distinct advantage to our manufacturing economy. The Council recommends that the Department of Commerce lead a study evaluating the implications of natural gas exports on jobs and economic growth. The objective of the proposed study is to generate the information needed to make relevant and timely decisions on matters such as export approvals of LNG, approval of infrastructure projects related to natural gas delivery, and regulations on production technology. The goal of the study should be to provide a framework for future policy focused on the economic impact and optimization related to all stakeholders, producers, domestic consumers and exporters focused on minimizing volatility, ensuring adequate supply for domestic users and maximized domestic economic impact and employment.

The Council also spent significant time understanding the challenges around alternative energy sources and competitiveness. Opinions on this topic are varied. The Council believes that additional study into carbon-free energy alternatives is very important and found advantages to further exploration of solar energy as future technological advancements may make this energy source economically attractive in the relative near term. This research is provided as an appendix to this letter.

Conclusion

We hope that this Council's recommendations are structured so that they can be advanced by the next Council, as the work of one Council transitions to the next. In this summary, we have provided input on suggested areas of future focus for the next Council as an appendix to this letter.

Manufacturing is responsible for producing the goods that defend our nation, sustain our lives, and improve our quality of life. Manufacturing supports quality jobs, and positively impacts the economy and the balance of trade. It grows wealth for employers and employees alike. The United States enjoys a proud tradition as a global leader in the manufacturing sector. We are hopeful that the Department of Commerce and the Administration will support and implement these recommendations to ensure our nation's manufacturing competitiveness by responding to the challenges facing U.S. manufacturers at home and abroad.

Sincerely,



Mike Laszkiewicz
Chair, Manufacturing Council



Mary Isbister
Vice-Chair, Manufacturing Council