Chicago White Metal Casting, Inc.

EXCELLENCE IS EXPECTED

Certified Aluminum, Magnesium & Zinc Die Castings

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Testimony

of

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Subcommittee on Economic Growth, Tax and Capital Access

"Is Uncertainty Contributing to the Jobs Crisis:

The Views of Local Illinois Small Businesses"

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Good morning, Chairman Walsh and Ranking Member Schrader. My name is Eric Treiber, and I am president of Chicago White Metal based in Bensenville, Illinois. I also serve as a Board Member of our national trade association, the North American Die Casting Association (NADCA).

In Illinois, Chicago White Metal is one of nearly 40 die casting facilities and dozens of key suppliers employing thousands of workers. My company is a leading manufacturer of aluminum, magnesium and zinc die castings – all produced entirely in the United States. My grandfather started the company in 1937, which makes us a third-generation family business. We have nearly 230-employees; many of whom are in skilled trades and have an average tenure of more than 17 years each with our company.

Our customers come from the medical, automotive, industrial, telecommunications, and recreational industries just to name a few. Our metal castings are found in products all over the country. As an example, for the automotive sector, we produce a number of intricate magnesium and aluminum die castings that become part of rear view mirror assemblies, headlight housings, keyless entry systems, and the power system of electric vehicles.

Uncertainty Contributing to the Jobs Crisis

As you know, the manufacturing sector has been deeply affected by the recession with more than 2 million jobs lost. In fact, a number of die casting facilities were forced to shut their doors. A strong U.S. manufacturing sector is key to jobs, innovation and prosperity in the state of Illinois and America. To regain momentum and encourage hiring, the U.S. needs not just improved economic conditions but also government policies more attuned to the realities of global competition. We need sound and consistent policies in taxation, energy, labor, trade, health care, education and, certainly, regulation.

Unfortunately, many die casters are holding off hiring new employees for the following reasons:

1) We don't know if the economy will continue to pick up in 2012;
2) There is uncertainty about what our tax liability will be in 2012 and 2013 because a host of tax provisions expire at the end of this month and the Bush tax cuts are set to expire at the end of 2012;
3) We continue to face annual double-digit increases in our health care premiums;
4) We are faced with increasing costs associated with a wave of new regulations; and,
5) We are faced with potential increases to our energy costs. Manufacturers use one-third of our nation's energy supply. Die casters operate a large number of machines, including ones that melt the metal for our castings, lighting for our production lines and warehouses, – all requiring electricity and/or natural gas. In addition, we rely on rail, trucks and ships to receive our supplies, as well as for transporting our castings to our customers.

In particular, we are troubled by three new costly U.S. Environmental Protection Agency (EPA) regulations - the Boiler MACT, Utility MACT and Cross-State Air Pollution Rule – and, in particular, what their impact will be on energy prices. In the case of the Utility MACT, we are extremely alarmed that it could endanger America's power supply. The electric industry has only three years to comply with the new rules that are designed to force dozens of coal-fired power plants to shut down. It is likely that the nation's power grid will be stressed in ways never before experienced.

Given this great amount of uncertainty over the outcome of a number of critical government policy areas, instead of hiring new employees, the die casting industry is faced with utilizing overtime with its current workforce, and/or hiring temporary workers to fill their employment needs.

Over the last two years, we have not seen sensible and cost-beneficial regulation being proposed by federal government agencies. On the contrary, an aggressive federal bureaucracy has imposed excessive regulations with little regard for their impact on job creation and the economy.

Die casters need a level playing field. Our foreign competitors typically comply with fewer regulations and have governments that use every tool at their disposal to give those companies a competitive edge, frequently at the expense of U.S. manufacturers. The solution is to ensure the regulatory environment in our country does not put manufacturers at a disadvantage.

The sheer amount and breadth of the administration's proposed and newly implemented regulations make it impossible to address each and every one. In my testimony today, I will focus on two key areas – EPA regulations and U.S. tax policy.

Background on the Die Casting Industry

As an important segment of the larger metal casting industry, the die casting industry produces over one-third of all metal castings. More than 90% of all manufactured goods and capital equipment use metal castings as engineered components or rely on castings for their manufacture. Today, there are over 350 U.S. die casters manufacturing thousands of non-ferrous castings: from automobile engine and transmission parts to complex components for computers and medical devices. In the United States, die casters contribute over $7 billion to the nation's economy annually and provide over 50,000 jobs directly and indirectly.

The die casting industry is a microcosm of American business with over 55% of the companies having fewer than 100 employees, while our larger firms are world leaders. We offer good-paying, blue-collar jobs with benefits that have allowed our employees to support their families and send their children to college. The industry is widely dispersed throughout the country with the highest geographic concentration of facilities located in the mid-West.

Aluminum, magnesium and zinc die castings are helping automakers design and manufacture cleaner, safer, better performing cars that use less fuel and produce fewer emissions. In fact, die casters are producing castings for hybrid vehicles, plug-in electric and hydrogen vehicles, as well as vehicles using alternative fuels such as ethanol and natural gas.

In Illinois' 8th district, Allied Die Casting in McHenry, Illinois has been producing custom die castings since 1966. Also located in Congressman Walsh's district is Magma Technologies in Schaumburg. They are a supplier of metal casting process simulation software and related engineering services. Other Illinois die casters across the state are producing castings for power tools, security devices, furniture, commercial lighting fixtures, lawn & garden, and Harley-Davidson motorcycles to name just a few.

Regulatory Environment

The U.S. die casting industry has long recognized the need for sensible regulations to ensure workplace safety and protect public health. They help to keep employees in our workplaces safe and our environment clean. But the federal government has gone too far. A staggering 3,503 final rules were promulgated alone in 2009.

Some agencies are guilty of an agenda of overreach and insensitivity to costs and manufacturing. The EPA is currently advancing 20 proposed major rules and 173 others. The Health and Human Services Department is expected to release 30,000 pages of new health care regulations. Eleven different agencies are drafting 243 new rules governing the cost and access to credit for businesses. In addition, new rules and guidance documents have been developed by a range of agencies – from the Occupational Safety and Health Administration, Wage & Hour Division to the National Labor Relations Board and the Equal Employment Opportunity Commission.

For laws that affect manufacturers, there are often scores of burdensome regulations that impose substantial compliance costs – burdens often never anticipated by the lawmakers who passed the legislation. Meeting the demands of federal regulations can cost companies millions of dollars each year in staff time, equipment and programs. Our company specifically requires 1.5 staff members dedicated full-time to regulatory compliance.

Currently, the Obama Administration has 4,257 new regulations in the works, 219 of which will cost over $100 million annually – 15 percent more than last year. At a time when manufacturers are fighting to survive in an already tough economy, thousands of additional regulations will only result in significantly fewer jobs – hitting small businesses particularly hard.

A recent Small Business Administration report showed the total cost to employers of federal regulations is $1.75 trillion. The average regulatory cost for each employee of a mid-size manufacturer now exceeds $13,000 per year. Manufacturers bear the heaviest burden from environmental regulation, while facing similar or more stringent regulations in workplace, health, transportation, financial, and tax administration. Dollars spent by manufacturers on regulatory compliance with cumbersome or duplicative regulations are dollars not spent on capital investment or hiring new employees in America.

Some of the most economically threatening regulatory proposals come from the EPA. The agency has embarked on a decades-long process to implement the Clean Air Act and its amendments. There is no doubt that enormous benefits have been brought to our nation from efforts to improve air quality. But the continued ratcheting down of emission limits produces diminishing returns at far higher marginal costs. This means that each new air rule will have a greater impact on job creation than those in the past.

At the beginning of this year, the agency began regulating greenhouse gas (GHG) emissions from stationary sources under the Clean Air Act. While only the largest facilities will be regulated at first, this action sets the stage for future regulation of much smaller sources.

Despite being a small business, it turns out Chicago White Metal is already bound with a set of reporting requirements under the new GHG regulations. Nowhere did EPA announce and/or outline these new reporting obligations, nor have they done any type of outreach with the small business community. Our environmental manager was first made aware of the potential reporting trigger through our national trade association.

This got him interested in the topic and he began to research further. About 20 hours of research later, we discovered that die casters that utilize magnesium in their operations are immediately covered under Subpart T (Note: There are 47 subparts to the GHG rule).

Our company is now required to register at E-GGRT (Electronic Greenhouse Gas Reporting Tool). This took a bit of time, but now we have our user name and password. Beginning in 2012, we will have to start reporting our GHG emissions.

Our estimate is 6 hours of recording time per year, plus an unknown amount of time required for the actual reporting at the E-GGRT site since we haven't done this type of reporting before.

Die casters are also concerned that states are unprepared for the new permitting requirements under the GHG rule, which will cause significant delays. This permitting gridlock will likely discourage manufacturers from building new facilities or expanding their current facilities, hurting competitiveness and discouraging job creation. Furthermore, additional facilities –even the smallest businesses – will be phased into the onerous permitting requirements.

I believe that major regulations that place new burdens on the private sector should be subject to congressional approval. I support the REINS Act (Regulations from the Executive in Need of Scrutiny) which passed the House on December 7th. The bill requires Congress and the President to sign-off on all new regulations that have an economic impact of $100 million or more. It will increase accountability and job creation, two things we need a lot more of right now.

Many die casters also strongly support two additional bills, the Regulatory Accountability Act (H.R. 3010) and the Regulatory Flexibility Improvements Act (H.R. 527) which recently passed the House and will ease the burden of unnecessary regulations by reforming how regulations are analyzed —including mandating that agencies implement the least costly option to achieve the objective.

Many agencies have been using loopholes to avoid regulatory reviews that Congress intended, and this legislation will put a stop to this practice. Additionally, H.R. 527 takes the important step to subject independent regulatory agencies, such as the National Labor Relations Board, to the same regulatory principles as Executive Branch agencies. These two bills make positive changes to our regulatory review process. The regulatory system must take into account valid concerns without impeding innovation and job creation.

<u>Tax Policy</u>

As Congress begins debating tax reform, the tax code should strengthen the economy and provide businesses relief from burdensome and confusing tax rules and regulations. A strong economy is also critical to industry growth and job creation, which is why efforts to simplify and streamline the tax code must be found. Businesses face layers of taxes under the current system that is prohibitive as well as confusing. Many tax provisions are enacted on a temporary basis - in large part due to budgetary and political constraints - requiring repeated extensions (occasionally even retroactively). The uncertainty resulting from such temporary tax policy makes it difficult for die casters, which rely on five- and ten-year business strategies, to plan effectively for the future and remain competitive in an increasingly global economy.

In fact, several key business tax breaks currently available are set to change or expire entirely after December 31, 2011. While it is possible that Congress may choose to extend some of these provisions, there is no guarantee that the provisions will be available to the same extent in 2012. For example, absent congressional action, bonus depreciation and section 179 expensing will be extended in 2012, but at a lower rate of 50 percent bonus depreciation and a lower amount of $125,000 for section 179 expensing with a $500,000 phase-out cap. Currently, 100 percent bonus depreciation and a $500,000 amount for section 179 expensing is allowed with a phase-out cap of $2 million in 2011. Bonus depreciation and section 179 expensing provide tax relief for companies that want to buy capital assets, such as plant machinery and equipment. These historic capital investment incentives have had a positive impact and incentivized business purchasing and job creation.

The R&D tax credit is also set to expire at the end of this year. U.S. manufacturers (small and large), including die casters, perform half of all R&D in the nation, which drives more innovation than any other sector. To maintain this competitive advantage, tax provisions must be enacted that will stimulate investment and recovery, including strengthening the R&D tax credit and making it permanent. The R&D credit was first enacted in 1981, but since that time, it has been extended some 14 times. Without action this year, the credit will expire for the fifteenth time on December 31, 2011. In addition to this uncertainty, other countries are moving ahead of us by offering stronger innovation tax incentives to attract research and development and the good-paying jobs that go with it to their markets. In 2009, the U.S. ranked 24th out of 38 industrialized countries in the strength of its R&D tax incentives.

Companies often enjoy an assortment of attractive choices when deciding where to locate their headquarters, do their research or build new facilities. While the use of government incentives is commonplace, a country's or state's business climate itself ultimately determines where a company will be located.
As a springboard for future economic growth, investment and jobs, the United States must seek to be the best country in the world in which to maintain and locate a manufacturing company's headquarters.

To do this, we need a national tax climate that does not place U.S. manufacturers at a competitive disadvantage in the global marketplace. Chicago White Metal’s tax rate is higher than its global trading partners like Canada, where companies pay perhaps half as much in taxes – 18 percent compared to our approximately 40 percent. The United States now imposes the highest or second-highest statutory corporate income tax in the world among developed nations, even as our competitors reduce their rates to improve their economic climate. Congress should reduce the corporate tax rate to 25 percent or lower without imposing offsetting tax increases.

Many die casters and more than 70 percent of American manufacturers are S-corporations that file taxes at the individual rate. We must institute permanent lower tax rates for individuals and small businesses that fall into this category.

Bear in mind as well that the Illinois income tax rates have increased, effective January 1, 2011. For C corporations, the Illinois corporate income tax rate increased from 7.3% to 9.5%; for individuals, the rate increased from 3% to 5%. Additionally, Illinois has suspended the ability for C corporations to utilize any net operating losses for tax years ending after December 31, 2010 through December 31, 2014.

Bottom line – Predictability and consistency in the United States tax code would allow for the long-term planning and investments that enable us to stay competitive.

Conclusion

Chairman Walsh and Ranking Member Schrader, thank you again for the opportunity to testify today on how the uncertainty regarding numerous federal government policies is contributing to the continued job crisis.

A thriving manufacturing sector benefits our country, puts people to work and drives the economic growth that is necessary if we are to bring down our debt. The best way to ensure economic growth and employment is by enacting a comprehensive and consistent set of policies that allow manufacturers to compete in the global marketplace. I would be happy to respond to any questions.