

# **2011 Survey of Maine Manufacturers**



**Prepared by the office of Congressman Michael H. Michaud**

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## Introduction

Maine has a long, proud history of manufacturing. Since, and even before, Maine became a state in 1820, it has been a leader in many industries, including footwear and paper products. Our manufacturing sector has been known for making everyday items like toothpicks and brooms, as well as producing canoes, waterproof boots, steam engines, and ships. Maine's manufacturing landscape has changed quite a bit since the state joined the union, and although the state remains a leader in many manufacturing sectors, unfortunately these changes have not always been for the better.

I developed this survey to hear firsthand from Maine's manufacturers so that I could directly communicate their comments and concerns to my colleagues in Washington, D.C. The questions were designed to hear about the challenges manufacturers face, what resources would help them grow, and their forecast for Maine's manufacturing. I plan to use these results to pursue policies in Congress that will increase Maine's manufacturing sector's innovation, efficiency, production, and employment.

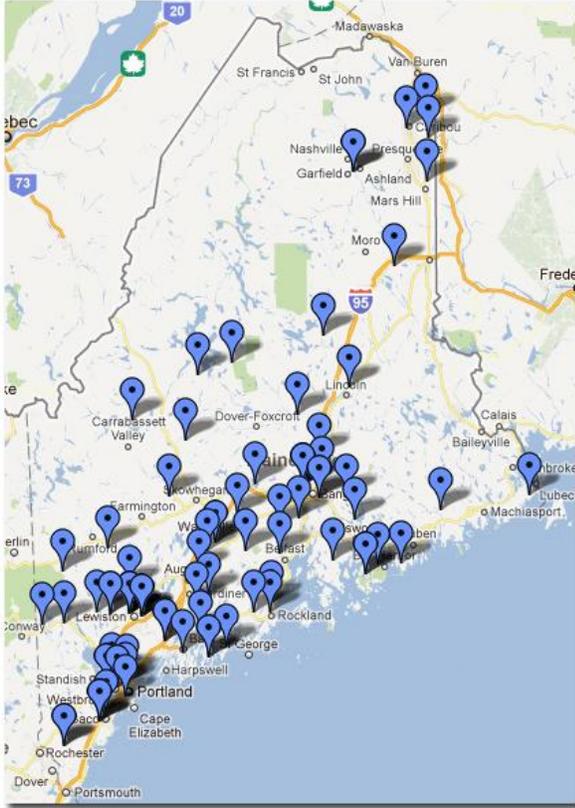
Since 1994, Maine's manufacturing employment has declined by 40%, and we have lost more than 13% of our factories since 2001. In just the last three years alone, 141 factories have shut their doors and 8,600 workers have lost their jobs in the manufacturing sector. Despite this declining trend, this survey illustrates that Maine manufacturers appear to be as resilient as ever. With the right focus and policies from Washington, D.C., we can capitalize on the sector's strength and help it grow again.

Specifically, this survey revealed that:

- Despite the decline in the state's manufacturing employment over the last 20 years, many manufacturers would like to hire additional employees in 2011 but cannot find qualified workers with the right skills.
- Maine businesses have a positive perception of hiring veterans. The unemployment rate among the state's large population of former servicemembers is increasing and is now greater than the overall unemployment rate. Putting companies and veterans in touch with one another could be beneficial for both the state's manufacturers and veterans.
- The financial crisis hit Maine businesses hard, but companies did not necessarily feel the credit crunch directly. Companies primarily relied on personal funds or internal cash flows to weather the downturn. They remain split about whether we will see a double dip recession, but more than half also said that their profitability for this year would either stay the same or increase from 2010 to 2011.
- More than half of companies said foreign competition had increased over the last 10 years, mostly from China. A very large percent of companies do not export any goods, but slightly more export at least some products. About half of manufacturers now get some of their raw materials abroad.
- Maine's manufacturers have mixed opinions about China's growing influence in the global marketplace, but companies overwhelmingly think addressing China's currency manipulation would be more positive than negative.
- Although Maine's overall exports have increased significantly in the last two years, most respondents did not anticipate increasing exports in the near future. There was no clear consensus on how the government could increase exports either, though lowering taxes and adjusting trade policy were the most popular suggestions.
- Only 16% of Maine's manufacturers contract with the federal government. Those that do not cite red tape as the primary reason why. Most would welcome strengthening of Buy American standards, though some concerns were raised that global supply chains could make this difficult.
- Businesses are very concerned about many issues, but they are most worried about health care costs, government regulation, and taxes.

## Survey Respondents

Eighty-five manufacturers, specifically 14 businesswomen and 71 businessmen, responded to the survey. Twenty-four owners, 29 Presidents, 6 Vice Presidents, and many other executives and senior manufacturing officials answered the survey. They represent businesses located throughout the state of Maine (see map).



The overwhelming majority of the survey responses came from small business. Nearly half of the companies (49%) had fewer than 20 employees, and almost a quarter (24%) had between 20 and 50 employees. Only 15% had a workforce of more than 100.

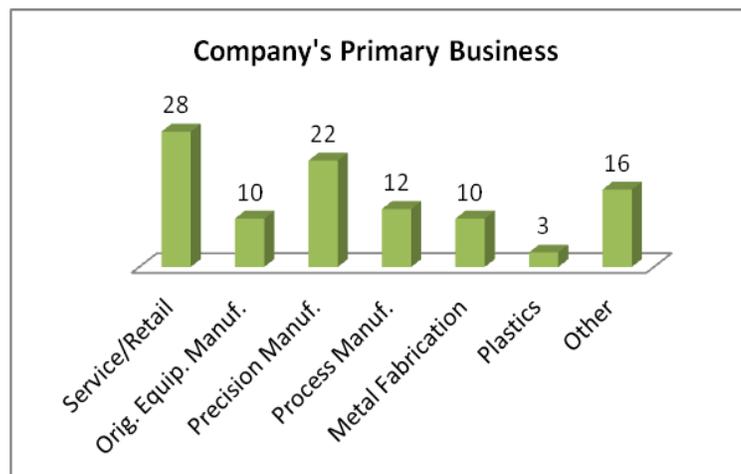
Of those surveyed, an overwhelming percent (67%) said they were strongly rooted in the state and do not plan on moving their business. An additional 18% said they were rooted in Maine but had considered leaving. Only 6 companies (7%) said they will move when the time is right.

When asked to select all the industries that best represented their companies, 33% selected services/retail, the largest category of business covered by the survey. Twenty-six percent selected precision manufacturing. Original equipment

manufacturers (12%), process manufacturing (14%), metal fabrication companies (12%), and plastics companies (3%) were also represented in the survey. The 16 businesses that did not fit in these categories represented a spectrum of sectors, including agriculture, woodworking, textiles, and wine-making/brewing (see chart). Survey respondents included a rope maker, a housing manufacturer, and a precision machining company that serves the defense and aircraft industries.

The respondents indicated that their businesses serve industries far beyond these categories. From the defense industry to the agricultural sector, Maine manufacturers' products are used by a wide variety of individuals and businesses.

Just from these initial results, it is clear that Maine has a wide range of manufacturers that serve a variety of sectors, and it is easy to see that Maine's manufacturing heritage is still prevalent throughout the state.



## Workforce Trends and Needs

Looking at Maine’s manufacturing employment over the last 20 years, however, shows a disturbing trend. In January 1991, there were 89,900 workers in the manufacturing sector. By January of this year, that number had dropped to 51,800 workers, a decrease of 42%. Many factors, including the lack of a national manufacturing strategy and the pursuit of a flawed trade policy, have caused this sharp and significant decline (see chart).



Source: Bureau of Labor Statistics

The Great Recession’s toll on Maine’s manufacturing only added to an already steep downward trend.

From December 2007 to June 2009, the official beginning and end of the recession, Maine lost 12.5% of the state’s manufacturing workforce (see highlighted data in chart). Unfortunately, the official end of the recession did not mean an end to the job losses. Between June 2009 and August 2011, the most recent month for which final data are available, Maine lost 2,100 more manufacturing jobs, or 4%. Put another way, Maine’s manufacturing employment has reached workforce levels as high as those in June 2009 in only one month, February of this year.

<b>MANUFACTURING EMPLOYMENT</b>			
<b>Month</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Jan</b>	59.3	59.7	55.2
<b>Feb</b>	59.3	59.8	54.4
<b>Mar</b>	59.3	59.5	53.1
<b>Apr</b>	59.4	59.5	53.2
<b>May</b>	59.1	59.4	52.6
<b>Jun</b>	59.6	59.4	52.1
<b>Jul</b>	59.6	59.3	51.7
<b>Aug</b>	59.4	58.9	51.2
<b>Sep</b>	59.1	58.3	51.2
<b>Oct</b>	59.5	57.8	51.2
<b>Nov</b>	59.6	57.2	51.0
<b>Dec</b>	59.6	56.5	50.6

(Data Seasonally Adjusted)  
Source: Bureau of Labor Statistics

Despite these discouraging trends, only 13% of the respondents indicated they would layoff workers this year. More than half (58%) said they would maintain their workforce, and 28% said they would hire more workers. Similarly 28% said they would increase employee wages over the next year. Just over half (52%) said they would stay the same, and 18% said workers’ wages would decrease. Given that last year 27% of respondents laid off employees, more than twice the number that anticipate letting workers go in 2011, this is an encouraging sign that some parts of Maine’s manufacturing sector are recovering.

The survey revealed, however, that just because a company is looking to hire additional employees does not mean they will be able to find skilled workers to fill the positions. More than half (56%) said it was either difficult or very difficult to find skilled and qualified candidates for their companies’ vacancies. Only four businesses said it was not difficult at all. In August I visited manufacturers throughout Maine, and they echoed these concerns about finding workers with the right skills for the job. They recommended better synching high schools with vocational training and community colleges with businesses to help train students for jobs in the manufacturing sector.

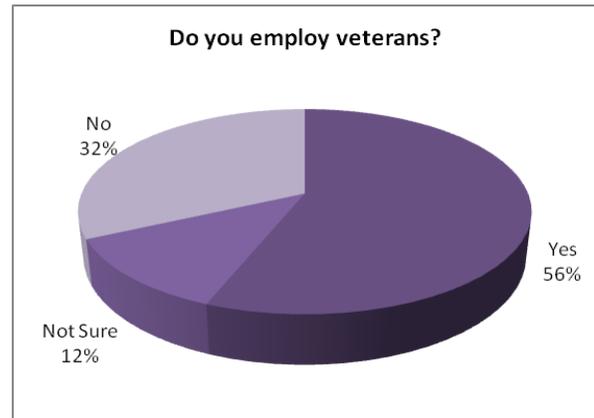
## Connecting Veterans with Manufacturers

One population of workers that often have advanced skill sets is veterans. Perhaps because Maine's veteran population is so large, 56% of the respondents said they already employ veterans, and many cited their training as the reason why (see chart).

The incentives or reasons for hiring veterans varied from patriotic duty to veteran ownership of the company. When asked what incentivized them to hire veterans, one company said, "veteran employees are highly skilled and usually have a very strong work ethic." Another reiterated that veterans "come with good training, skills and discipline."

Some respondents (6%) indicated that tax credits would make them more interested in hiring veterans.

Forty-percent explicitly said that they did not want an incentive or did not need one to hire veterans. In fact, most respondents simply said that they hire the most qualified candidates but veterans' training often gives them the skill sets employers are looking for.



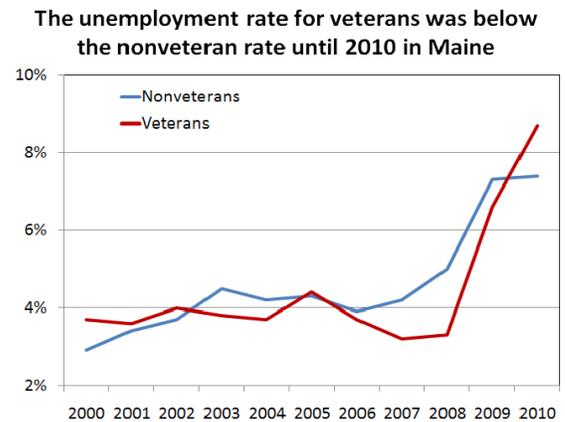
Ranking	State	% of state population that are veterans
1	Alaska	11.5%
2	Virginia	10.7%
3	Maine	10.6%
4	Montana	10.5%
5	Wyoming	10.5%

Source: Kaiser Family Foundation

This positive employers' perception of veterans could be a reflection of the large population of former servicemembers in Maine. The state has the third largest population of veterans as a percentage of state population. More than 10% of Maine's residents have served in the military, making the number of veterans in the workforce higher than it might be in other states (see chart).

The state's large population of former servicemembers also means Maine must address the problem of high unemployment among veterans. Across the country, the unemployment rate for veterans who have served in the military anytime since September 2001 is higher than the overall unemployment rate. Although Maine's veterans have fared better than veterans nationwide, this trend is changing. According to a 2011 report from the Maine Department of Labor, the state's unemployment rate among veterans has sharply increased and is now higher than the nonveteran unemployment rate (see chart).

Given Maine manufacturers' need for a skilled workforce and the growing problem of unemployed veterans, solutions to both problems should be pursued jointly.

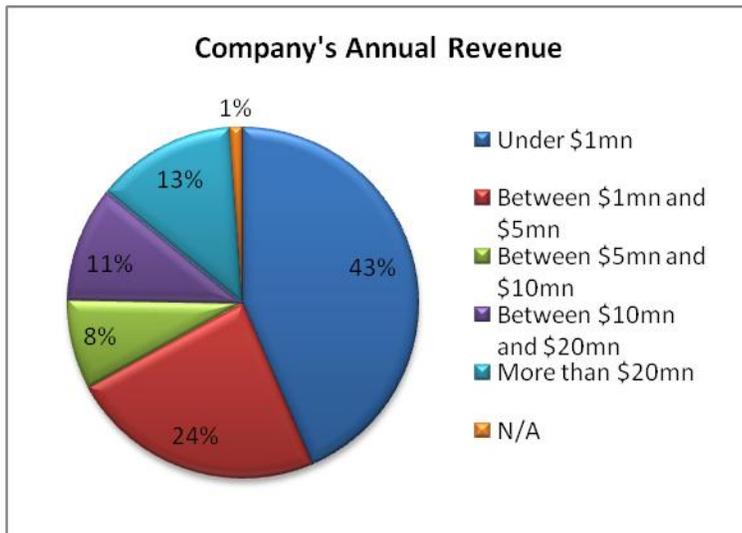


Source: Maine Dept. of Labor

This survey suggests that simply connecting manufacturers that are hiring with veterans who are unemployed might help companies find the workers they need, while placing veterans in high-paying jobs.

## Financial Makeup and Outlook

More than 40% of the survey respondents were businesses with annual revenues under \$1 million, and 13% represented companies with annual revenues of more than \$20 million (see chart).



Respondents were split on whether or not there would be a double-dip recession, with 33% saying they thought 2011 would be marked by another recession and 38% saying they thought the economy would remain flat. Fifteen percent simply weren't sure, and 12% were optimistic that 2011 would bring an economic expansion.

Of the businesses with revenues less than \$1 million, 50% thought there would be a double-dip recession. In contrast, only one of the 10 companies with revenues of more than \$20 million

believed there would be a recession in 2011. Half of them thought there would be flat economic growth, and 20% thought there would be an economic expansion. These data suggest that smaller companies are more pessimistic about our economic recovery than larger businesses.

Most manufacturers agreed, however, that they had felt the credit crunch. More than half said that the credit crunch had had either a modest or a significant impact on their businesses, with 32% overall saying that impact had been significant. Surprisingly, 18% said that the credit crunch's impact on their companies was minor, and an equal number said that there had been no impact at all. When asked whether or not their company had experienced a constriction of credit either directly or indirectly, responses were evenly divided: 42% said no, 40% said yes, and 18% said they didn't know.

Respondents' forecasts for their companies' profitability in 2011 indicate that most believe they can weather the downturn. Although more than half said they had been affected by the credit crunch, an equal number also said that their profitability for this year would either stay the same or increase from 2010 to 2011, with 34% saying they expected their profits to increase. A third of those surveyed said they expected to see a dip in their profits compared to last year.

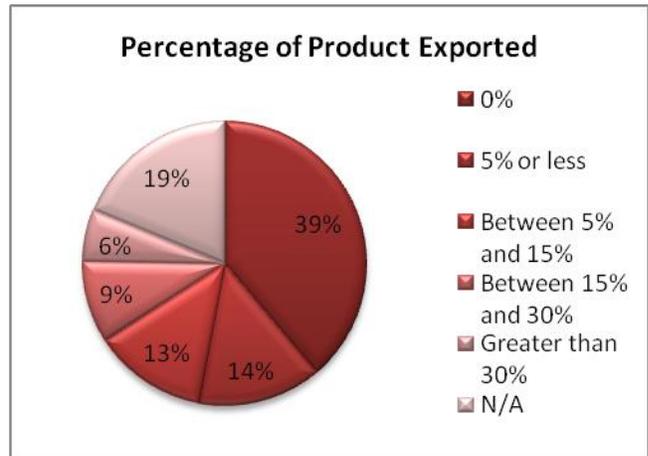
When asked how they had dealt with the credit crunch, 48% said they had funded their companies through personal resources or internal cash flow. A fifth (21%) said they eliminated or reduced product offerings. Only 7% said they had explored alternate financing options. Despite having to look elsewhere for credit, 42% of respondents said their capital expenditures would increase in 2011 compared to 2010. Nearly a quarter said they would remain the same, and slightly more (28%) said they would decrease.

## Competing in a Global Economy

The survey confirmed that Maine manufacturers compete in a global economy. Many of the companies surveyed get raw materials from other countries and export their products abroad. But they also face challenges from the increasingly global nature of manufacturing.

Two-thirds of the companies surveyed said they faced competition from foreign sources. An overwhelming number (58%) of respondents said competition from foreign sources had increased in the last 10 years. When asked where their foreign competitors are located, 51% of those who responded said China, and 16% said Canada. One company said their competitors are located in Chile, adding “selective free trade agreements do not help domestic manufacturers.” Another said their foreign competitors are located “all over the world... wherever labor is cheaper.” These answers illustrate that Maine’s manufacturers, like those across the country, have to overcome a variety of challenges including China and U.S. trade policy.

In addition to facing competition from other countries, the companies surveyed also rely on global sources for their inputs. Fifty percent said they now get at least some of their raw materials from abroad. Some responses to this question provided anecdotal evidence of the overall decline of U.S. manufacturing. One company said that the “global market for many wood products is becoming less competitive, which should lead to opportunities here in Maine...[but] the wood manufacturing base has been decimated.” Another response said they imported 50% of their raw materials, “because I can’t find anything from here.” Still another said, “Almost all of it because what we need isn’t made in the U.S. anymore.”



Despite the reliance on foreign raw materials by half of the respondents, fewer companies (just under 40%) said they did not export any of their products abroad. While many sell only to the domestic market, more than a quarter of the companies said they export up to 15% of their product, and 6% said they export more than 30%. Combined, 42% of the businesses export at least some of their product (see chart).

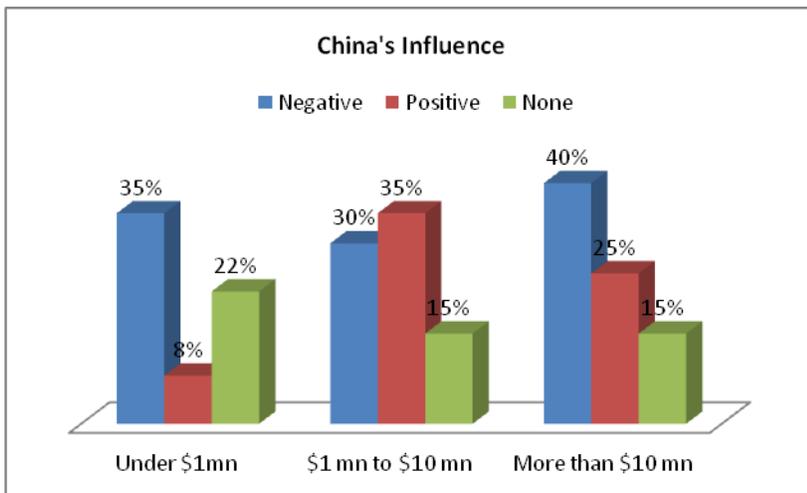
In total, 51% of all respondents provided information about where their companies export their products. The data show that Maine’s manufacturers export their goods to countries all over the world. Canada by far is the most popular export destination for Maine companies: 79% of companies that send their product abroad send them to Maine’s northern neighbor. The

United Kingdom is the second most popular recipient of Maine’s exports, with 48% of exporting companies sending goods across the Atlantic Ocean (see chart).

## China's Impact on Maine's Manufacturers

More than half of the survey's respondents said that China was the source of their foreign competition, but 23% of the exporting companies send their product there. This is just one glimpse into the complex relationship that Maine manufacturers have with China.

When asked what effect China's emergence in the global marketplace has had on their businesses, respondents gave contradicting answers. One company cited the ability to get more cost effective raw materials from China as the sole reason it was able to transition to a more sustainable business model. Another manufacturer said that China's increasing influence has "destroyed American manufacturing." Yet two responses from lumber industry representatives said that China's growth has had a positive impact on their business because Canadian lumber that once flooded the U.S. market is now going to China.



Surprisingly, more companies with the largest revenues (in this case, over \$10 million) thought that China's impact had been negative than companies with smaller revenues. Businesses with revenue under \$1 million had the greatest number of respondents who did not think China had had an impact. That group also reported the lowest percentage who thought China's impact had been positive.

The companies in the middle, those with revenues between \$1 and \$10 million, had a different view about China's influence. More of them thought China's impact had been positive than negative, and that group registered the lowest percentage of respondents who thought the effect had been negative.

From these responses, it seems that businesses of varying sizes may feel the impact of China's growth differently. Smaller businesses that make niche items for the domestic market may not feel China's influence as much as larger companies who may get raw materials from there or more directly face the effects of U.S. businesses relocating offshore (see chart<sup>1</sup>). Therefore, a multi-pronged approach to addressing China's emergence in the global marketplace will be necessary.

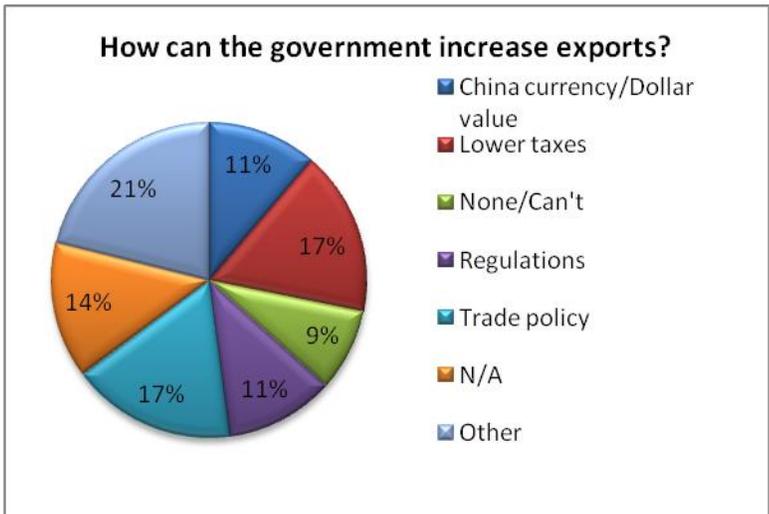
One obvious solution is to force China to comply with international trade laws and let its currency, the yuan, float freely. Thirty-seven percent of those who responded to the question said that addressing China's currency manipulation would have a positive impact on their business. Only 4% said it would have a negative impact. One respondent offered the following recommendation, saying "Countries like China need to be reprimanded with offsetting tariffs to neutralize their currency manipulation to help U.S. manufacturing play on fair/equal ground to imports."

<sup>1</sup> In some cases, the answers provided to this question could not be put in any of the three categories, which is why the total percentages for each revenue group may not reach 100.

## Increasing Exports

In his 2010 State of the Union address, President Obama announced the National Export Initiative to double U.S. exports in five years. Department of Commerce estimates indicate meeting this goal will create an additional 2 million jobs. Data from the survey suggest that there is room for export growth among Maine’s manufacturers, but responses were extremely divided about how the government can help. Recent increases in Maine’s overall exports may provide some clues.

Respondents were asked whether it was likely they would export to a spectrum of regions around the world. As mentioned earlier, nearly 80% of manufacturers who said they exported send their goods to Canada. But 39% of all the survey’s respondents said it was “not at all likely” that they would begin to export or increase their exports to their northern neighbor in the next two years. The United Kingdom is the second most popular destination for Maine goods behind Canada, yet 61.5% of businesses said it was not at all likely they would begin shipping products or increase current exports to the U.K. The recession could potentially factor into companies’ anticipated stagnation of exports. In addition, it is possible that there is simply not a known demand for the surveyed companies’ products in these countries. But given the existing economic ties between these nations, it seems plausible to investigate expanded export opportunities for Maine’s manufacturers in Canada and the U.K.



Anticipated exports to other countries and regions are even less likely to increase over the next two years. An overwhelming majority (80%) of businesses said they were not at all likely to begin to export or increase exports to China. Seventy-seven percent will not pursue market opportunities in Asia (excluding China). Even more (84%) said they would not export to India, and 87% said it is not at all likely that their exports to Africa will increase.

Perhaps most surprisingly, despite deep economic ties between Western Europe and the U.S., 61% still said they were not at all likely to begin exporting or increase exports to that region in the next two years.

These data indicate that there are a lot of export opportunities that Maine’s manufacturers might not have the resources to identify or maximize. When asked how the government can help businesses increase exports, however, responses were inconclusive. The most common answers were lower taxes (17%) and adjust trade policy (17%), including lowering other countries’ tariffs, reducing imports, conducting free trade missions, and repealing NAFTA. Eleven percent said the government should reduce regulations to increase exports. An equal number cited addressing China’s currency manipulation and maintaining a competitive dollar value as a solution. These responses suggest that exchange rates play a large part in the cost-effectiveness of exporting, especially if Maine manufacturers are exporting to countries other than China where the value of the dollar makes a difference in their ability to compete. The largest category, “other,” included a spectrum of roles for the government, including lowering manufacturing costs, preserving our customs and export processing, and increasing congressional appropriations for commercialization of products.

Consistent with the large group of manufacturers that do not currently export, 14% said that increasing exports was not applicable to their business.

Even though the majority of those surveyed did not anticipate increasing their exports in the next two years, the state’s overall exports have increased recently. According to the Census Bureau, Maine’s exports increased by more than 41% in value from 2009 and 2010. Export statistics from the state’s top 10 exports illustrate the significant export growth in specific sectors (see chart). At least in part, this growth reflects recovery from the recession, but some of the data, namely in aircraft engines and paper/paperboard, reveal that at least a few Maine industries are experiencing true export expansions.

The most popular destinations for Maine’s top 10 exports were largely different than those of the surveyed manufacturers: 1) Canada; 2) Malaysia; 3) China; 4) Netherlands; and 5) South Korea. Only Canada was the primary export destination in both the survey and among the top 10 exporting sectors.

Malaysia, Netherlands, and South Korea were not mentioned by any of the respondents as a destination for their exports, but exports to those countries skyrocketed from 2009 to 2010. Exports to Malaysia, for example, increased by 143.8%, and exports to Netherlands increased by 124.8% over that period.

Differences between the surveyed manufacturers and the top ten exporting sectors can be explained simply by the products made by each. Maine’s top 10 exports include several manufactured products, such as circuits, woodpulp, paperboard, and aircraft engines and parts. Although some of these industries were represented in our survey, services/retail and precision manufacturing businesses accounted for 50% of the responses. It is possible, then, that the survey’s data do not accurately represent the industries most focused on sending their products overseas. In addition, the survey respondents overwhelmingly represented small businesses, which may account for some of the discrepancies in export information. Still, the survey’s data suggest there is an opportunity to inform more of Maine’s manufacturers about export opportunities. It also makes clear that our economic and technical infrastructure must be improved so that all of Maine’s manufacturing sector is equipped to take advantage of them.

MAINE'S TOP TEN EXPORTS	2007	2008	2009	2010	% Change 2009 - 2010
ELECTRONIC INTEGRATED CIRCUITS	602	589	227	709	212.5
CHEMICAL WOODPULP, SODA OR SULFATE, OTHER THAN DISSOLVING GRADES, SEMI-BLEACHED OR BLEACHED, NONCONIFEROUS	236	222	134	275	105.3
PAPER/PAPERBOARD OF A KIND USED FOR WRITING, PRINTING, GRAPHIC PURPOSES, NOT CONTAINING FIBERS FROM MECHANICAL OR CHEMI-MECHANICAL PROCESS	96	117	141	183	29.7
LOBSTERS, LIVE, FRESH,CH, DRIED, SALTED OR IN BRINE	136	117	110	172	56.4
PAPER, PAPERBOARD, CELLULOSE WADDING ETC.	82	120	93	124	33.5
CIVILIAN AIRCRAFT, ENGINES, AND PARTS	59	64	164	103	-36.9
CONIFEROUS WOOD IN THE ROUGH, NOT TREATED	114	98	104	95	-9
AMPLIFIERS, ELECTRONIC INTEGRATED CIRCUITS	100	110	60	90	49.6
PROCESSORS AND CONTROLLERS, ELECTRONIC INTEGRATED CIRCUIT	76	80	55	66	21
SALMON, PACIFIC, ATLANTIC & DANUBE, WITH BONES, FRESH OR CHILLED	13	38	34	61	79

*Source: Census Bureau; Data in millions of dollars.*

## **Buy American and Government Contracting**

Increasing business opportunities at home is another way of boosting Maine's manufacturing. The federal government spends hundreds of billions of dollars in procurement each year. According to the federal procurement data system, in 2007 (the most recent year for which data are available) procurement spending totaled \$460 billion, including contracts and purchasing. Making sure Maine companies have access to government contracts and purchasing opportunities is a commonsense way to promote manufacturing growth and to ensure that U.S. taxpayer dollars are spent on American-made goods and services as much as possible.

Based on the survey, it is clear more Maine's manufacturers should be able to take advantage of government opportunities. Only 16% of respondents said they contract with the federal government, and the remaining 84% said they did not. When asked to provide a reason why they do not contract with the federal government, 41% cited red tape, and 26% said they were not interested. One respondent explained how significant the red tape burden is for small businesses: "I think the government thinks a small business is 500 employees. Every government opportunity I looked at seemed like I would need staff to fill out paperwork just to see if we qualify, if we can even understand the proposal in the first place."

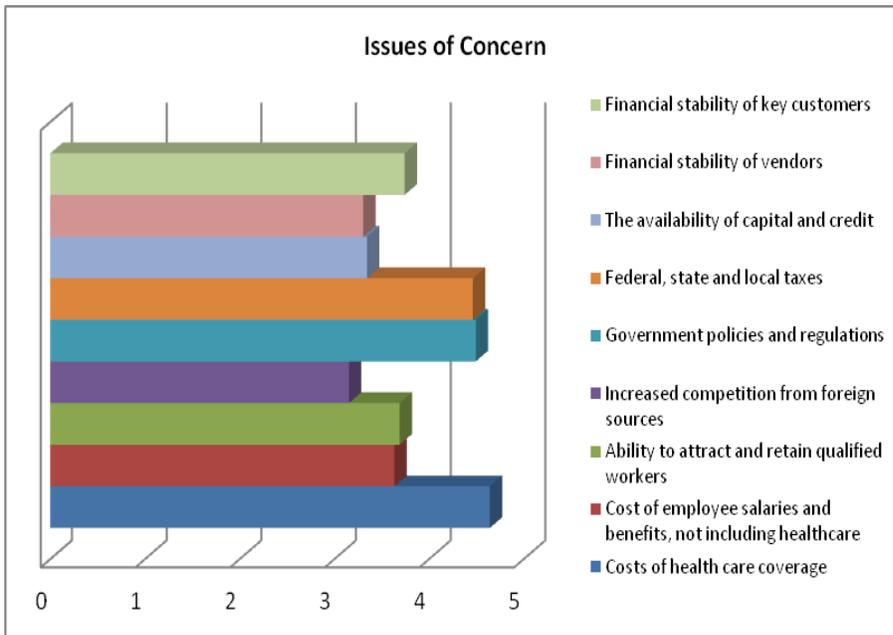
The government contracting process needs to be implemented to protect the abuse of taxpayer dollars, but it should not be so daunting as to exclude manufacturers. Out of all the survey respondents, 35% exported some of their goods abroad but did not contract with the federal government. If a company is sophisticated enough to identify and take advantage of markets abroad, it seems reasonable to assume that they are also capable of mastering the government contracting system. The fact that so many do not suggests that there is room for improvement in incorporating Maine's manufacturers into the procurement process.

Responses to questions about the federal government's Buy American requirements indicate the policy is one aspect of government contracting that should be targeted for improvement. Forty-six percent of those who answered the question said the 50% threshold for meeting Buy American requirements is too low. Many other responses said they strongly support requiring the government to buy goods made here at home, but they did not specify whether or not the 50% requirement was too low. Some companies acknowledged that their products either cannot meet existing requirements or higher ones because they now get components overseas. One respondent said: "it is difficult to achieve a high percentage of American products integrated into our work and still be competitive."

Efforts to strengthen Buy American standards should not disrupt existing business relationships between Maine's manufacturers and the federal government. There is room, however, for more American procurement dollars to be spent on more American products. One possible way to increase opportunities for Maine's manufacturers would be to increase Buy American requirements. In the event of sectors where some components are not domestically available, these requirements may need to be phased in. But strengthening the "American" part of the Buy American policy will create demand for U.S.-made products and boost domestic manufacturing in Maine and across the country.

## Issues of Concern

The survey asked Maine manufacturers questions about workforce needs, financial outlook, foreign competition, and government contracting. Through these inquiries, the survey attempted to illuminate specific policies that could be improved to boost Maine's manufacturing. In addition, respondents were asked to rank how concerned they are about frequently raised business issues and to suggest tax incentives that could improve the business climate in Maine. Looking at all of the data combined, we can draw some basic conclusions about Maine's manufacturers. We can also identify some specific policy changes that might benefit a sector that has experienced a two-decade decline.



The top three issues Maine manufacturers are concerned about are: 1) costs of health care coverage; 2) government policies and regulations; and 3) taxes. Surprisingly, respondents said they were more concerned about the financial stability of key customers than about their own ability to obtain capital and credit. This corresponds with the 42% of respondents who said they had not been directly affected by the credit crunch.

Twenty-eight percent of surveyed companies indicated they would be hiring in 2011; accordingly, the ability to attract and retain qualified workers was the fifth most concerning issue facing businesses. Increased competition from foreign imports was the issue Maine manufacturers were the least concerned about.

Perhaps the most telling about these responses is that all of these issues ranked above a three on a one to five scale, with five indicating a business is very concerned. Given these responses and the fact that 45% of those surveyed think Maine is on the wrong track, it is clear a comprehensive strategy is needed to respond to manufacturers' concerns and promote growth within the sector. Feedback from this and other questions in the survey suggest that tax reform, export promotion, trade policy changes and enforcement, and government regulations are all areas where improvement is needed.

## **Recommendations and Next Steps**

This survey showed that Maine manufacturers face a great number of challenges, but in many ways remain strong. Their dedication to staying in Maine, the anticipated hiring of workers this year, and their use of personal or internal funds to stay afloat during the recession underscores the resilience that has made Maine's manufacturing sector famous for two hundred years.

The changing global economy, however, has already produced new and difficult challenges that businesses will need assistance and resources to overcome. Although respondents were mixed on their overall view of the federal government and whether or not it could play a productive role in the industry, most of the recommendations called for government action in specific policy areas, namely tax reform, export promotion, trade enforcement, and government regulations.

### **Tax Reform**

When asked what tax incentives could improve the business climate in Maine, payroll tax relief was cited by 34% of respondents, more than any other, as the tax reform that would help Maine's manufacturers. Twenty-seven percent said corporate taxes needed to be lowered, and 21% said bonus depreciation allowances should be extended. Survey responses to this question varied dramatically. They ranged from "tax code major reform" to "increase taxes on outsourcing." One respondent suggested instituting the fair tax, and another recommended eliminating the estate tax.

### **Export Promotion**

Export promotion is another way to boost U.S. manufacturing, and is a top priority for President Obama. Often the idea of navigating the customs process is daunting, especially for small businesses. The survey revealed that while Maine's exports have increased in the last two years, there is still untapped potential for the majority of manufacturers who responded to the survey. Technical assistance to identify market opportunities and, when applicable, obtain export financing seems to be inadequate. One business suggested: "Provide easy access to export brokerage firms to reduce costs and limitations of exporting goods." Securing American intellectual property would also help promote exports, according to one respondent: "Protect patent, copyright, and manufacturing information."

### **Trade Policy Changes and Enforcement**

Ensuring our trade laws and trade agreements are fully enforced is absolutely critical to any export promotion efforts and are necessary to prevent China from using their currency manipulation to put Maine companies out of business. In addition, we need to revamp our trade policy to prevent American jobs from being sent overseas. One respondent offered the following suggestion: "Perhaps some sort of incentives to help prevent outsourcing, or perhaps cutting back on Free Trade Agreements." Another company indicated that the "import/export laws have destroyed the Maine forest product industries," and questioned "why is it cheaper to send boards to China and build bird houses and salad bowls than to build them in the Maine business next to the sawmill where the boards were sawn?"

### **Government Regulation**

This survey made it clear that Maine's manufacturers are very concerned with government regulation. Because different companies face different regulations, there is not one overarching recommendation gleaned from the survey responses. In addition, some regulations help to protect our water supply, while others keep our air clean. Targeting the duplicative or overly burdensome regulations is key to helping manufacturers grow. One response suggested "work[ing] with Maine

to eliminate overlapping regulations.” Another recommended getting rid of the “federal weight limit on I-95.”

Making it easier for Maine’s manufacturers to obtain government contracts is another way of improving regulations. Strengthening Buy American requirements will benefit Maine businesses, but it must be done in a way that will allow companies who currently source foreign components to transition to domestic components when possible. Similarly, strengthening the Berry Amendment regulations, which require DOD to purchase certain types of products from American sources, would help Maine’s manufacturers. One company suggested that the government “should invoke the Berry Amendment to any purchase over the minimum threshold of \$5k or under. Berry was invoked during the ARRA, and it resulted in more bids for companies like ours.”

### **Next Steps and Plan of Action for Maine’s Manufacturers**

This survey provided an invaluable insight into the challenges facing Maine’s manufacturers. Combined with my visits to manufacturers in August and in the months since then, this survey has helped me to better understand the day-to-day concerns our businesses face. It has motivated me to write to the new Commerce Secretary asking him to take two steps to help American manufacturers. It influenced my floor speeches against the free trade agreements considered by Congress last month. More importantly, it has prompted me to develop a Plan of Action for Maine’s Manufacturers. I will release this plan early next year after visiting more manufacturers around the state and following up with many of those who took the time to participate in this effort. As part of this plan, I am drafting legislation to address some of the concerns raised by companies in this survey.

In the meantime, I am going to share the results of this survey with my colleagues in Washington. I believe Congress and the White House need to make manufacturing an explicit national priority, and this survey strongly supports that idea. Some work has been done (see list of legislation attached), but much more action is needed if Maine’s manufacturing sector is going to recover and grow. To that end, in addition to introducing and supporting the bills below, I have made improving our trade policy a top priority during my time in Congress. I firmly believe that our trade policy will play a critical role in the future of U.S. manufacturing. As chair of the House Trade Working Group, I am a leader in the House of Representatives for fair trade policy and enforcement. I will continue to weigh in with the United States Trade Representative on the Trans-Pacific Partnership Agreement, which includes Vietnam and, if not negotiated carefully, could devastate Maine’s footwear industry. In addition, I continue to work to improve regulations, whether on truck weights or Berry Amendment compliance, to make sure they help, not hinder, Maine’s manufacturers. Most importantly, I will continue my conversations with this sector to develop my Plan of Action for Maine’s Manufacturers.

### **Legislation to Advance U.S. Manufacturing:**

I have introduced the following bills this Congress to promote compliance with the Berry Amendment; ease the IRS' regulatory burden on small businesses; and promote composites research and development.

- H.R. 2955, the American Footwear for American Servicemembers Act of 2011: Clarifies that the Berry Amendment explicitly applies to footwear, and DOD must procure footwear from American sources.
- H.R.2820, the Advanced Composites Development Act of 2011: Establishes an advanced composites research program at DOT, DOE, DOD, and DHS. Each Advanced Composites Development Center will operate as a public-private consortium working to develop a new advanced composite material to meet a need identified by one of the Departments.
- H.R.763, the Safe and Efficient Transportation Act: Provides states with the authority to allow heavier trucks on the Interstate, so long as those vehicles add a sixth axle to maintain braking and handling capabilities. It lets shippers move their products more efficiently and with fewer trucks, reducing fuel consumption, cutting emissions and saving money for small businesses.
- H.R. 2545, the IRS Rulemaking Fairness Act of 2011: Increases oversight of the rule making process at the IRS through the use of review panels that examine small business concerns. Unless the IRS certifies that a proposed rule will have no impact on small businesses, they must convene an advocacy review panel made up of representatives from the IRS, the OMB and the Small Business Administration's Office of Advocacy.

I have cosponsored the following legislation and am actively pushing for their consideration in the House:

- H.R. 1366, the National Manufacturing Strategy Act: Directs the president to work with industry, labor leaders, and other stakeholders to develop a national strategy to increase manufacturing.
- H.R. 639, the Currency Reform for Fair Trade Act: Gives the administration additional tools to address China's fundamental undervaluation of its currency.
- H.R. 2722, the Buy American Improvements Act: Closes loopholes in Buy American requirements and makes more transparent the process of issuing waivers to the requirements. It also increases the domestic content requirements from 50% to 75%.
- H.R. 3057, the ENFORCE Act: Addresses the evasion by foreign producers of anti-dumping/ countervailing duty tariffs through illegal transshipment of goods through another country or by mislabeling the products.
- H.R.1418, the Small Business Lending Enhancement Act of 2011: Increases credit union business lending cap to 27.5% of assets from the current level of 12.25% of assets in order to provide more small businesses with access to credit.
- H.R. 1603, to Establish the Emergency Trade Deficit Commission: Establishes an Emergency Commission To End the Trade Deficit and places a moratorium on new Free Trade Agreements until the Commission has issued a final report and Congress has conducted hearings on the Commission recommendations.

## **Thank You!**

Dear Mainer,

I want to thank you for taking the time to fill out the 2011 Survey of Maine's Manufacturers. Many of the responses echoed the comments I have heard visiting companies across my district. Some feedback and suggestions gave me new insights into our state's businesses. I will be using all of this information to educate my colleagues about the challenges Maine manufacturers face and the resources and policy changes they need to overcome them and grow.

I am a firm believer in the benefit and necessity of a strong U.S. manufacturing sector. As you may know, I worked for more than 29 years for the Great Northern Paper Company before coming to Congress. Every time I visit a manufacturer in my district, my belief in manufacturing is reaffirmed. I am encouraged and inspired by the innovation and dedication of every worker and owner in the sector.

In my Washington, D.C. office, I have my lunch pail from my time in the mill to remind me and anyone who meets with me of the value and the importance of Maine's manufacturing. Fighting to protect and promote the businesses of that critical sector has been one of my top priorities in Congress since I was first elected. I will use the results of this survey to continue this fight and to help Maine's manufacturers overcome the many challenges they face so they can keep innovating, continue producing, and hire more hard-working Mainers.

Sincerely,



Mike Michaud  
Member of Congress