

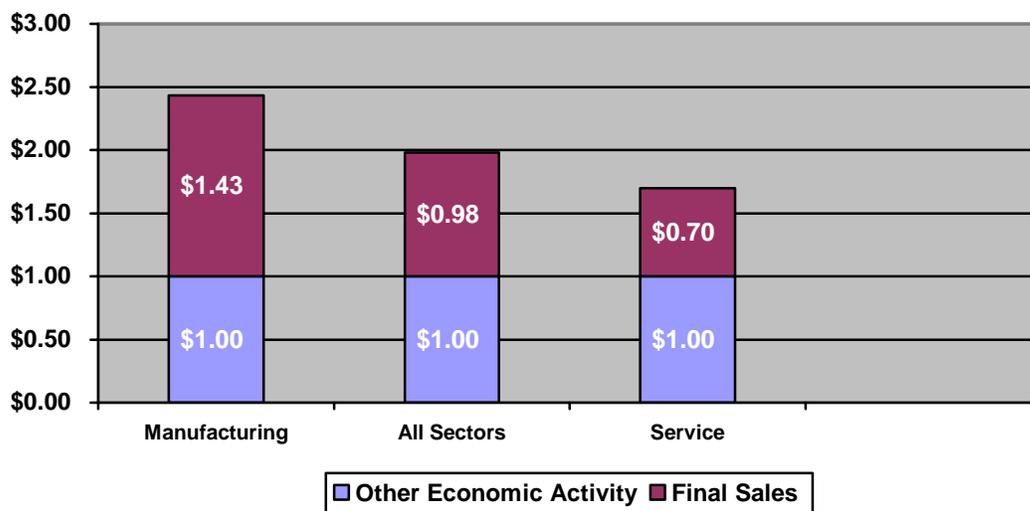
BEARING SPECIALISTS' ASSOCIATION

The Effects on the U.S. Bearing Industry and Homeland Security of Manufacturers Moving Overseas

The Bearing Specialists Association represents more than 70 companies distributing factory-warranted ball-, roller-, and anti-friction bearings. The association's mission states it is "the forum to enhance networking and knowledge sharing and promote the sale of bearings through authorized distributors." Therefore, BSA is committed to educating American manufacturers and decision makers about the critical role played by the U.S. bearing industry in American manufacturing.

FACTS – Manufacturing Generates More Activity Per Dollar

The manufacturing process leads to increased economic activity in other sectors of the economy. For every \$1 of goods produced, an additional \$1.43 worth of additional economic activity is generated – more than any other economic sector.



From "Securing America's Future: The Case for a Strong U.S. Manufacturing Base," available at www.nam.org/renewal.

"U.S. manufacturing is the heart of a significant process that generates economic growth and has produced the highest living standards in history. But today this complex process faces serious domestic and international challenges which, if not overcome, will lead to reduced economic growth and ultimately a decline in living standards for future generations of Americans."

o Joel Popkin, "Securing America's Future: The Case for a Strong U. S. Manufacturing Base," June 2003

It's not just manufactured products that make Americans rich, it's the manufacturing process. This process starts with an idea...which leads to new jobs and equipment...and increased productivity...and new products and processes. Prices fall and quality rises. Soon, other parts of the economy are benefiting. Ultimately, living standards rise.

But this extraordinary growth engine is losing steam. American manufacturers face greater challenges, both domestic and international, than ever before. Elected officials don't fully appreciate this threat – not just to U.S. employment and national security, but to our future prosperity.

Jim Berges, president of Emerson Electric, provides an eye-opening look at manufacturing's economic impact:

"If the long term health of this economy is threatened, then so are we. Economies whose manufacturing sectors are not vibrant and growing are doomed to low overall growth. Those who call for a conversion to a service-based economy need only look at Japan and Germany to get a glimpse of the consequences of manufacturing's decline - not a pretty picture, and not one we want to see in this country.

"U.S. manufacturing has demonstrated the ability to overcome pure wage differentials with trading partners through innovation, capital investment and productivity. But when the structural costs multipliers are piled on, the task becomes unmanageable even for best-in-class companies. Concerted effort to get our state and federal legislators to focus on addressing and removing these penalties will yield positive results for the entire economy."

MANUFACTURING'S CRITICAL CHALLENGES

While American manufacturing creates higher living standards, domestic and international challenges threaten its sustainability due to:

Lost Jobs. Since July 2000, manufacturing has lost almost 3 million jobs, many of which have relocated overseas. Output has shown little growth since the official end of the recession.

Dramatically Rising Costs. The cost of doing business in the United States is rising dramatically, in large measure because of significant costs related to health care, litigation, regulation and energy. As a result, many U. S. manufacturers have shut down or moved production overseas.

A good example of this was seen in a *Business Week Magazine* interview with Caterpillar Inc. CEO James Owens. *Business Week Magazine* asked him:

“You’ve been adding capacity overseas, notably in China, but haven’t built a new factory here in years. Is manufacturing in the U.S. becoming too hard?”

“It’s challenging and one of the biggest challenges is spiraling health-care costs. Old, traditional manufacturers like us have carried a lot of that burden for our employees. We have to put more individual responsibility in making wise health-care choices. That’s why we’re looking for cost-sharing from our hourly workers. Premiums, co-pays, and deductibles will do that. But it’s a national problem. Increasingly, government policymakers have got to think about U.S. manufacturers competing in a global theater.”

Loss of Export Potential. Manufacturing exports as a share of GDP have contracted since 1997, reflecting increased global competition, an overvalued dollar and difficult economic times overseas. Increased purchases of foreign-made goods have pushed the U. S. trade deficit to historic highs.

Investments Going Elsewhere. U. S. manufacturing’s share of capital investment and R&D expenditures, once a dominant feature of our nation’s commitment to progress, are diminishing.

A Shortage of Skilled Workers. “Despite the loss of almost 3 million jobs, manufacturing is facing a potential shortfall of highly qualified employees with specific educational backgrounds and skills, especially those specific skills needed to produce manufactured goods.” *National Association of Manufacturing*

EFFECTS ON U. S. BEARING INDUSTRY AND HOMELAND SECURITY. As the U. S. Bearing Industry looks for ways to meet these manufacturing challenges, it is also fully aware of the critical role bearings play in homeland security:

"Bearings are a critical component in production equipment and products that are necessary to ensure our security. They are a necessary component in electric motors that drive the industrial complex, on conveyors that are associated with airport security systems, mining, steel production, with fans that move and exhaust air, and with automobiles and the equipment used to manufacture them. It is impossible to imagine a secure America, cities or small towns, without a reliable domestic source for bearings. Clearly, we need U.S. manufacturers and distributors who are self sufficient."

-- Joe Swann, president of Rockwell Power Systems

The effects to the U. S. Bearing Industry apply both to bearing manufacturing taking place today in the U. S. as well as the distribution of bearing products in the U. S. to the end user customer base.

Even though the U. S. is the world's largest economy, the industrial U.S. market is shrinking. This means the future state of business for distributors and their manufacturers (suppliers) will be all about market share battles. Our customer base is still large, but growing ever smaller.

In the last few years, we have already seen a great deal of consolidation among industrial distributors as well as bearing manufacturers. Although all the major bearing manufacturers – SKF, Timken/Torrington, NSK, INA/FAG, NTN, etc. - are already global manufacturers, what will happen if we lose the manufacturing base of the U.S. economy? Global bearing manufacturers based in the U.S. will move their manufacturing to where the volume demand is located. And, U.S. distributors and U.S. bearing manufacturers will have a smaller market to serve.

Homeland security will be affected because the U.S. will have an unavoidable global dependency for bearings. Are bearings important to our national security? Yes, they are critical mechanical components in major weapons systems. The U.S. Air Force attacks on the German bearing industry during WWII indicate the importance of bearings. Dependence on foreign bearings brings into question U.S. capabilities during an emergency plus being subject to foreign political considerations if they do not agree with U.S. policy. The recent disputes about policy in Iraq are a good example.

THE NATIONAL ASSOCIATION OF MANUFACTURERS POSITION

Manufacturing, more than any other sector, generates prosperity for Americans. BSA Member companies, employees, and families must help create awareness about manufacturing's importance to our country's economic and security well-being.

The National Association of Manufacturers (NAM) recommends the following:

- Level the international playing field, such as ensuring that exchange rates are determined by markets and ensuring that countries such as China comply with international trade rules.
- Reduce the cost of producing in the United States, including containing health-care costs, enacting legal reforms, ensuring plentiful and inexpensive energy supplies and reforming the regulatory system to ensure cost-benefit analysis.
- Promote innovation and investment, through increased R&D support, a tax system that encourages research and development and incentives to attract scientists and engineers to this country.

BSA will continue to expand its' relationship with NAM. They are a strong lobbying force in Washington, D.C. We must have an open dialog with NAM and seek their guidance in how we can best support their efforts. These efforts are critical to the future of our industry.

BSA'S CALL TO ACTION

["Leadership is action, not position." - Donald H. McGannon, former CEO of Westinghouse Broadcasting Company \(Group W\).](#)

In addition to NAM's recommendations, BSA member firms are encouraged to support their local manufacturing base by becoming involved in a range of activities at the local level. Those activities can cover a range of initiatives including:

- Education. Take time to teach your own staff about U.S. economics. Work to relate events in your area to relevant economic principals so that they truly understand the impact of world events on their own paychecks. Similarly, support local colleges and high schools in their economic education by serving as a guest speaker or supporting activities such as Junior Achievement.
- Local support. Become active in your local chamber of commerce, community development board, coalitions to nurture new business, etc. These organizations support healthy economic development in your area and connect you with other local business people. Volunteer to work on committees or to serve in leadership capacities where you can help strengthen local economic development.
- Government. Develop strong relationships with your local and political officials. Brief them about your organization and how their activities impact your business. They are eager to hear from their constituents on a wide variety of issues. Your personal advocacy about the important role manufacturing plays in your area is important for them to hear.
- Media. News reporters in your area are eager to develop articulate, knowledgeable sources who can comment on local economic issues as news breaks. Work with them to ensure that the business issues and concerns are being accurately reported. Develop an active media relations program that includes new releases, interviews and letters to the editor to ensure that important business issues get reported.

A healthy U.S. manufacturing base is vital to our future. To protect it, we must be willing to get involved at many different levels and BSA members are encouraged to add their voices.

The role of bearings in U.S. manufacturing and homeland security is crucial. BSA believes the association and its members must leverage every available opportunity to communicate this message.

BSA wishes to thank the following industry and association leaders who helped develop this report:

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