

Fast Facts

A Quarterly Newsletter

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The first salvo has been fired

In the last issue of Fast Facts, we discussed China and its impact upon the United States at length. Well, apparently the first shot has been fired across their bow by the Bush administration. The China North Industries Corp. (NORINCO) has been banned from importing anything into the US for two years. The Bush Administration found that this major Chinese industrial conglomerate had been selling missile parts to Iran. According to the State Department, Norinco sold parts for ballistic missiles to the Shahid Hemat Industrial Group, an Iranian producer of medium and long range missiles. The State Dept. went on to say that these parts were sent in October, clearly two months after the Chinese government had been issued an edict banning the sale of such products to Iran. Norinco began as a provider of tanks, machine guns and other weapons. They have since diversified and now produce more than 40,000 products, including light industrial goods, electronics, textiles, handicrafts, motorcycles and guns. They export in excess of \$100,000,000 worth of products to the US annually. Apparently this is the first time that a state-owned company has been issued a blanket sanction on its entire product line.

Is this just the first of many? Perhaps, but perhaps not. We'll have to wait and see.

More on China

Here is an email I received as a result of the last issue of Fast Facts.

Subject: The Loss of U.S. Manufacturing

I just read the Fast Facts Newsletter (Spring 2003) - Our country is losing its manufacturing base and shifting to a service-oriented economy.

You hit it right on the head. We are a small manufacturing company that has been in business for 36 years. We have never been worried like we are now. We are not against free trade and competition, but the current situation is way beyond that. We have a catalog line of metal stampings for the lighting industry and have competed with imports for more than 20 years. That was okay when there were still companies here manufacturing/assembling, but now they are bringing in the fixtures assembled, boxed, and ready to sell. The American Lighting Association stated that 80% of lighting is now coming in from offshore. It creates a domino effect - component manufacturers do not have any one to sell to, therefore they (we) are not buying steel/alum/other metals, we are not buying equipment, tools, supplies, we are not using shipping services, etc. This is not the "trickle down" effect that we looked forward to in the 80s. Our company only employs about 20, but when you multiply that by all the other 20's, there is going to be an awful lot of people that do not have jobs. How then will we buy the "stuff" coming in from China or paying for all the "services" that the people here are providing in their new jobs.

When manufacturing is gone from the U.S., who is going to protect us? Are we going to buy our military equipment from China? That's an interesting concept - like the fox protecting the chicken coop!

Why don't we hear of this in the mainstream media? The only place I hear anyone talking about it is in trade magazines. What can we do? Is there time to turn the tide?

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I have done a lot more investigating as to what is or is not going on with China. Turns out that there are not one, but several groups all worried sick about losing our manufacturing base. There is www.SAMNOW.com (Save American Manufacturing), NAM (National Association of Manufacturers), National Coalition for Manufacturing Leadership, The Manufacturing Coalition, and a bunch more. SAM's objective seems to be getting ourselves heard by Washington. Of the bunch, there is not a stronger, more powerful group than NAM. Hell, they're right there with Secretary of Commerce, not that I have a lot of faith in that guy. I am not clear on what "getting heard" is going to do for us. What I do sense is harmony in that we all understand the urgency of the situation. But, also a major lack of unity. Everyone is running hither and yon yelling the sky is falling. There is no one spokesperson. Personally, I felt what all of these fine, well intentioned groups need is a unified spokesperson. Someone with instant recognition and the power and influence to get something done. Which is exactly why I requested the services of Jack Welch. (See letter below.) Furthermore, I encourage you to write to him as well asking him to be our spokesperson. This movement needs a leader and needs one soon. If not Jack, then who?

June 27, 2003

Mr. Jack Welch
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Dear Jack,

I last saw you in person a couple of years ago at the Fortune Leadership Conference in Chicago. You were not only your usual tremendous self, but stole the show. Then I saw you interviewed with Giuliani via satellite. That was tremendous.

The purpose of this letter is to get your feel on China and enlist you to represent the small US manufacturer. Enclosed is a copy of my quarterly newsletter and some of the emails I have received as a result of it. You will also find NAM's most recent published paper on the subject attached. There is even an organization called Save America Manufacturing at www.samnow.org. The problem is twofold. One, there is no one identifiable individual speaking up for the small to mid-size manufacturer and speaking out on China. Two, there is no one working on a solution. The hue and cry is for Washington to listen. I don't know if that is the answer and I truthfully don't know what the answer is.

Your input and recommendations concerning this matter will be greatly appreciated and welcomed.

Yours truly,
Jim Altfeld

America

On March 5, 1770, British soldiers were patrolling the streets of Boston. The Colonists certainly didn't care for it. As a matter of fact, in retaliation, they rose up and voiced their disapproval in the form of rock throwing and name-calling. In turn, the British troops, who didn't much like being stuck guarding the colonies in the first place, didn't waste much time in fixing their bayonets and loading up their weapons. When it was over, several Colonists were killed and/or injured.

Two men had the courage of their conviction to fight on. They were John Hancock and Samuel Adams. These two men, as members of the Provincial Assembly were so outraged by this demonstration of violence by the British that they demanded the ejection and complete withdrawal of all British soldiers from Boston. Samuel Adams was appointed to call on Governor Hutchinson to make the demand. The request was granted, but not for long.

The Crown, unhappy with the Governor's decision, felt he had caved in to the demands of the Colonists. The Crown dismissed the existing governor and quickly appointed a new, more loyal and less compassionate Governor – Governor Gage.

As one of his first acts, Gage summoned Colonel Fenton of the British Army to approach Adams with a bribe of wealth and power. In exchange Gage demanded that Adams cease and desist his opposition to the Crown and the British Government.

Adams now had one of two choices. He either takes the bribe and quits his opposition to the King, or he continues his opposition knowing full well he would probably be hung for it. Samuel Adams quickly insisted that Colonel Fenton deliver his message to the Governor exactly this way:

“Then you may tell Governor Gage that I trust I have long since made my peace with the King of Kings. No personal consideration shall induce me to abandon the righteous cause of my country. Tell Governor Gage it is the advice of Samuel Adams to him, no longer insult the feelings of an exasperated people.”

Receiving Adam's reply, Governor Gage became enraged to the point of issuing a proclamation declaring:

“I do, hereby, in his majesty's name, offer and promise his most gracious pardon to all persons who shall forthwith lay down their arms, and return to the duties of peaceable subjects, excepting only from the benefit of such pardon, Samuel Adams and John Hancock, whose offenses are of too flagitious a nature to admit of any other consideration but that of condign punishment.”

Quickly, Hancock and Adams assembled a secret meeting of their staunchest followers. From this meeting came the First Continental Congress, to be held in Philadelphia on September 5, 1774.

To emphasize the importance of both the secret meeting and the September 5th meeting, there would have been no Declaration of Independence if these two events had not occurred. To do so took courage, conviction and an undaunted belief in the ideal of freedom.

Keep in mind, however, that Adams and Hancock had not cornered the market on protesting. Prior to the proposed date of September 5th, Thomas Jefferson was creating his own stir by writing and publishing a “Summary View of the Rights of British America.”

He did this in spite of his extremely strained relationship with Lord Dunmore, the Crown's representative in Virginia.

For his published remarks, Jefferson was subject to high treason about which his friend and comrade, Patrick Henry remarked, “If this be treason, then make the most of it.”

The astonishing thing about the creation of this great nation of ours is that these men, without power, without authority, without military strength, without money were determined to create their own destiny and the destiny for the Colonies. Their bravery, commitment, determination and undaunted spirit continued in spite of threat of death and great bodily harm. Finally, on June 7, 1776, Richard Henry Lee addressed the Chair of the First Continental Congress and made the following motion:

“Gentlemen, I make the motion that these United Colonies are, and of right ought to be free and independent states, that they be absolved from all allegiance to the British Crown, and that all political connection between them and the state of Great Britain is, and ought to be totally dissolved.”

In creating the document that we have all come to know as the Declaration of Independence, every man who signed it completely understood that by doing so, he had just signed his death warrant should the colonies lose their fight with Great Britain.

On June 28, 1776, the original draft was read before the Congress. Revisions were made, debates ensued and agreement was finally reached. On July 4, 1776, Thomas Jefferson stood before the Assembly and passionately read the most momentous, world-changing decision ever placed upon paper.

What was it that drove these great men? What was it that they fought so passionately against? Put in its simplest terms, they were against the “under-my-thumb” hierarchy the British had implemented to manage the Colonists.

According to Thomas Jefferson, in a letter to a friend in 1820, he wrote, “I know of no safe depository of the ultimate powers of the society, but the people themselves, and if we think them not enlightened enough to exercise their control with a wholesome discretion, the remedy is not to take it from them, but to inform their discretion.”

Sovereignty, according to Webster is “supreme authority, complete independence and self-government.”

In other words, our Founding Fathers built a government whose purpose was not to control the people, but one that the people controlled. They created a structure in which no one person, entity or party was in complete charge, while giving the ultimate authority to the people, making each person partially in charge.

We all need to think about the future. The United States of America was not founded upon a one year, short-term vision. Nowhere is that more obvious than in the Constitution they wrote. They had looked far beyond the 1700's and envisioned a great country that would endure for the ages. Think about it. The future remains an invisible place only until you start thinking about it. Where then is the vision for the United States now? Where then is the vision for your own state or local government? Where is it we are headed? What are we becoming and growing toward? Who is working 'on' the country while everyone is working 'in' it? Or perhaps it is a vision of the few not to be shared with the many. Isn't it time we found out? If not for us but for future generations of Americans?

Perhaps it is time to throw that tea back into the harbor. Perhaps the time has come for the small and mid-sized manufacturer to stand up for his or her own beliefs and take back this country. To keep manufacturing in America will take cooperation, unity, interdependence, inter-relationships and above all else, synergy. That what is good for any of us is good for us all and what is good for us all is good for anyone of us. That what is good for manufacturing in the US is good for the US and what is good for the US is good for manufacturing.

Like our founding fathers, we cannot merely bitch and moan about it, we need to take action. Nor can we wait for the government to botch the job. Join and actively participate in such organizations as the National Association of Manufacturers (NAM), the National Coalition of Manufacturers, Save American Manufacturing (SAM), any trade association that pertains to your industry and any group like TEC, CEO Clubs, YPO and others. Write and call them to voice your opinion. Get on an action committee. Write and email your congressman and senators on both a state and federal level. Let the president know how you feel (and you may want to encourage him to replace Evans with a more aggressive, take-charge kind of person as Secretary of Commerce.) If we lose this war, we will eventually lose the United States of America. Perhaps not in our life times, but certainly in our kid's and grandkid's life times.

Who to contact:

Pres. Bush
Secy. Evans
Dept. of Commerce
State Senators
US Senators
State Congressman
US Representatives
Trade Associations (go to www.Altfeldinc.com) **A**

News Flash!!

On Monday, July 7th, the Dept. of Commerce held a roundtable discussion at the Davidson Conference Center at USC to discuss the problems of manufacturing in California. Nearly 100 small and mid-sized manufacturers attended as well as heads of associations. It was standing room only. To put it mildly, Mr. Ronald Langston, National Director of the US Dept. of Commerce's Minority Business Development Agency who headed up the roundtable received an earful. The two primary complaints were "give us a level playing field" and "give us access to capital." No one in attendance was either shy or bashful about how they felt. There was passion, zealousness and anger.

Points made:

- We are forced to deal with high operating costs due to City, State and Federal regulations and mandates when the rest of the world does not.
- Higher operating costs equates to fewer workers, higher unemployment, lower profit margins, less working capital, poor cash flow, and downsizing. Which part of that don't you get?
- We have no access to cash. What you have to do to get an SBA loan is ridiculous. We are competing with foreign countries using the latest machinery and equipment with the cheapest labor pool. Without money, I cannot buy the machinery and equipment I need to compete with them.
- Unfair tariffs in favor of importers to the US. I pay 60% going out and they pay 2% coming in. What sense does that make?

- No recognition of patent rights outside of the US
- I find myself competing against a counterfeit version of my own product when I go offshore.
- We are forced to meet certain product standards when the rest of the world does not.
- Sure. Go to China and partner with a manufacturer there. Then what happens to our own middle class? We are losing jobs by the tens of thousands, yet the immigration rate continues to ascend. Let us know what time the revolution and rioting in the streets begins.
- About 227 years ago a bunch of guys threw a whole lot of tea into the Boston Harbor over tariffs and taxation. Perhaps it's time to throw the tea back into the Harbor!
- We need incentives to keep manufacturing here in California and the United States!
- In China, manufacturing is state controlled and owned. Therefore, what is good for manufacturing is good for China and vice versa. In the US, manufacturing is looked upon as a pain in the butt and merely something to be taxed and drained.

Three suggestions:

1. Create a National Manufacturing Policy aimed at the small and mid-sized companies that will allow them to survive in the global market place.
2. Figure all the costs that go into manufacturing in the US, especially California. Then figure all the costs that our foreign competitors do not have to pay and apply the difference to the tariffs. Make it an even playing field.
3. Create a National Consumption Tax and abolish the IRS and the cost of keeping and maintaining all those records.

A final point made was that we felt Mr. Langston himself was sincere and concerned. But taking the message of what he heard to the Secretary of Commerce (who I have no faith in) and President Bush and then getting action is something we can only hope to see happen. In the meantime, you either hang on and try to cope, leave California, partner with whichever foreign country works best for you, or call it quits. Apparently, they are having these roundtable discussions throughout the United States and I am confident they are hearing many of the same things stated with the very same passion. The thing that is on our side is that we have an election year coming up. **A**

Ever Wonder What All the Fuss is Over Hydrogen?

I did. For the life of me, I couldn't figure out why the US would commit \$1.7 Billion on Hydrogen over the next five years. I also didn't understand all this talk about fuel cells and why Ford, GM and Daimler Chrysler would spend over \$2 Billion on it. Now I know and I thought I'd share it with you. Fuel cells convert hydrogen to electricity without combustion using an electrochemical process that is highly efficient and totally non-polluting. The cost of power produced by fuel cells started at around \$600,000 in the 1960's and '70's. It is now down around \$4500. It should soon be around \$1,000 making it competitive for utility-level power generation. It is expected to drop around \$400.00 by the end of the decade which would make it competitive with almost every type of power. The point is that as the cost becomes lower, you can expect to see fuel cells and other hydrogen based technologies popping up all over the place in the next couple of decades. **A**

US Unemployment Rises to a Nine Year High of 6.4%

In case you missed it, nationwide, we lost another 30,000 jobs in June. The jump from 6.1% in May to 6.4% in June was the biggest monthly increase since September 2001. And we all know what happened back then to cause it. As a matter of fact, the last time the unemployment rate was this high was back in April of '94. That makes 394,000 workers without jobs since February and 2.6 million since March of 2001. The majority of whom came out of manufacturing. Even more surprising is the fact that of the millions out of work, 17.4% are white collar managers or specialty workers, according to a study of Labor Department data by Hofstra University economist Irwin Kellner. It was only 10% during the 1990-91 recession and only 8% during the 1980's. Also according to Kellner, "It appears these job losses are permanent. They're not necessarily coming back when the economy does." The point is that between China, India, Russia and the Phillipines we are going to lose a significant percentage of our workforce in both the manufacturing and service sectors. America's blue collar workers will continue to lose jobs to cheaper and cheaper labor. Our white collar managers will be playing musical chairs. Not only will they have fewer companies to work for, but technology will continue to downsize the need for them.

One thing to think about during this downturn is your cash flow. In times like these, it is imperative that you stay on top of your receivables and put your best people on it. By extending credit to any customer you are betting on their financial well being. You'd best make certain you have done your due diligence and that your information is current, even with your best customers.

Hey, It Could be Worse.

And it is for California. Between the budget crisis and the slump in the tech industry, we are hurting a whole lot more than somewhat. We lost 21,000 jobs in May, the largest since December and 54,300 since February. We are also facing an unprecedented budget deficit, worker's comp costs that are out of control, weak demand for high tech products and to add insult to injury, even the tourism sector is down.

I can go on with a plethora of statistics that look a whole lot more gloomy than somewhat, but I won't. On the plus side, the tax cut is suppose to kick in this month and we've had another interest rate cut. Even at 6.4% unemployment, it is still below the 7.4% we saw in the '80's and early 90's. What's more, our unemployment rate is far below Iraq's which stands at 38%. (They only have 23 million people.) The stock market is up as are corporate profits. Even the economy grew by 1.9% in the first quarter. The economy will recover. When, I can't answer that. My personal opinion is that Iraq will certainly play a major role. Iraq has the second largest oil reserves and is a country full of skilled and educated workers. The fact that they could become an economic power is not out of the question. Thanks to Hussein, Iraq has been marching

backwards since the seventies when per capita income doubled. Last year, Iraq's GDP was \$28 Billion, or one fifth of what it was in 1979. This year it is suppose to drop to \$15 Billion. Their banking, legal and communications systems are in a shambles. The Dinar is completely unstable and can swing as much as 40% in a day. During Hussein's days of rule, inflation was as high as 1000% as he would merely print more money to meet expenses. Most everything has been state owned. Even when their oil income kicks in for them, their infrastructure will probably not be able to support it. Their currency needs to be stabilized as well as most everything else. Also, with 38% unemployment, that is a lot of people with time on their hands to impede the progress of reconstruction and make assaults on our military personnel. But, whether or not Iraq has the where with all to get on its feet, the oil will flow. We are a petroleum-based world and by making that additional high grade oil available, I am confident that oil prices will fall and profits will go up. (Do NOT allow that statement to lead you to think I am saying we went to Iraq for their oil. I do not believe that for one moment. If that were the case, we would have claimed the oil back in Desert Storm, which we did not. Furthermore, we certainly would not be putting in the time, money and effort to reconstruct it, either. And puhleeze, don't harangue me or anyone else about the "weapons of mass destruction." I'd rather be proactive than reactive any day of the week.)

On another front, five of eight defined market segments (food, pharmaceutical, beverage, personal care and household chemicals) are expected as a group to increase spending by 3.2% to 4.9% this year, according to a study by the Packaging Machinery Manufacturers Institute (PMMI). According to the article in Packaging World, "The selective optimism expressed in the outlook is somewhat clouded by current overarching economic and geopolitical concerns. The general sentiment among respondents is that they are reluctant to spend more money on new machinery than is absolutely necessary until the turbulence of current events subsides." **A**

Whatever Happened to Those Guys?

Remember Enron and all the saber rattling that was going on at the time? Every find out what happened to any of them? Did you know that Kenneth Lay was never indicted. Neither was Jeffrey Skilling. Ken Rice was, as was Joseph Hirco, Kevin Hannon and others. Thought you'd like to know.

Thought you'd also like to know about Maury Myers. He's the guy who took over Waste Management, the all time bad guys before Enron, Tyco and WorldCom. Tip your hat to him because he has done one helluvajob in turning that company around. According to a June Fortune article entitled Scandal Hits – now what?, he regained trust and credibility with his employees, cleared up remaining controversy, staid the course and steadied the ship, determined who they were and what business they were in, and improved efficiencies. It is an article worth reading. **A**

Tell us what you think. We'd like to hear from you and get your input on not only what we've covered in Fast Facts, but other topics you would like to see addressed. Or, if you are just peeved about something that pertains to business, let us know by e-mail: jaltfeld@altfeldinc.com.