



**Testimony of Chris Norch
President
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On behalf of the American Foundry Society

Before the

House Committee on Small Business

**Role of Small Business Suppliers and Manufacturers in the Domestic Auto
Industry**

May 13, 2009

Introduction

Good morning Chairwoman Velázquez, Ranking Member Graves, and Members of the Committee. Thank you for providing me the opportunity to comment on the vital role the metalcasting industry plays as a supplier to the domestic auto industry and how the downturn in the automotive industry is having a devastating impact on many of our member companies.

I am Chris Norch, president of Denison Industries. My metalcasting facility is comprised of 125 employees and was founded in 1991. We specialize in the production of aluminum castings for the automotive, defense, aerospace and commercial industries. Prior to joining Denison Industries in 2004, I worked for my family-run business Oil City Iron Works Inc. for twenty years. I am here representing the American Foundry Society (AFS) where I serve on its Board of Directors both at-large and as a Regional Vice President and my testimony here today is a reflection of the current state of our manufacturing sector.

AFS is the major trade and technical association for the North American metalcasting industry. It is comprised of more than 8,500 members representing more than 3,000 metalcasting firms, their suppliers and customers in every state in the country. Castings are found in 90 percent of all manufactured goods. The metalcasting industry produces both simple and complex components of infinite variety, whether they are produced once as a prototype or thousands of times for use in a

manufactured product. It can be said that when you stand in the middle of the average American city, you are never more than 10 feet from a metal casting.

Metalcasting plants employ 200,000 people primarily outside of major metropolitan areas. The highest geographic concentration of facilities is in the Great Lakes, Midwest, southeast regions and California. But every state in the U.S. has a metalcasting facility. The majority of our members are family-owned businesses, employing an average of 100 people or less. And all of them offer good-paying, blue-collar jobs with benefits that have allowed our employees to support their families and send their kids to college.

Impact of the Collapse of the Automotive Industry on the Metalcasting Industry

Auto suppliers manufacture most of the 15,000 parts that go into a single automobile. In fact, more than 70 percent of a car's value - from the seats to the engine block, from the electronics to the bumpers - is sold to the automakers by suppliers.

For the metalcasting industry, we provide at least 100 castings in every light weight vehicle produced in the U.S., which equates to more than 600 lbs of cast metal (aluminum, iron, magnesium and zinc) per vehicle. In fact, automobiles and other transportation equipment utilize 31% of all castings produced in the U.S. - including engine blocks, crankshafts, camshafts, cylinder heads, brake drums or calipers, intake manifolds, transmission housings, differential casings, U-joints, suspension parts, flywheels, engine mount brackets, front-wheel steering knuckles, hydraulic valves, and a multitude of other castings.

Many metalcasters manufacture castings for sale to other companies and serve as Tier 2 and 3 auto suppliers. An important exception are the relatively few (but large) "captive" foundries operated by the original equipment manufacturers (OEM's) including General Motors Inc. (GM), Ford, and Chrysler.

The nation's economic problems are taking a toll on metalcasting parts suppliers in the automotive supply chain, not just on the Detroit Three. U.S. auto sales, which collapsed last fall amid a deepening economic crisis, fell close to 30 percent in the first quarter of 2009 and are not expected

to improve for months. The continuing deterioration of the North American automotive industry is reflected in the latest production numbers which show that light vehicles were down 34 percent in April.

Like the Detroit Three, many of our suppliers have been restructuring their operations drastically to match the shrinking demand. Unfortunately, we are often waiting 90 days or more for payments from the automakers. Now, if you get paid in 120 days, you are doing well. Suppliers normally borrow against the bills to maintain their own inventories and payrolls. Today, however, these suppliers are having a very difficult time getting any bank to lend them money while they wait for payments from the Detroit Three. GM and Chrysler, for example, owe their large and small suppliers a total of roughly \$10 billion for parts that have been delivered. GM has held off paying them for weeks, and Chrysler is paying in small increments.

Many of our small suppliers will simply liquidate because they don't have the resources to reorganize in Chapter 11 bankruptcy – they are just going away. Over the past six months, nearly 15 metalcasters have been forced to close their doors or will close shortly – from Navistar's Indianapolis Casting Foundry employing more than 700 workers to 25 workers at Elmira Pattern & Foundry in New York. Other facilities that are closing are located across the country - from Monroe City, Missouri to Warrenton, Georgia to Van Nuys, California.

In recent months, we have seen a surge of foundry layoffs directly related to the downturn in the automotive sector in hundreds of communities. Grede Foundries, a Milwaukee-based company, operating eight foundries supplying castings to the automotive, appliance, agricultural and construction machinery industries, has struggled with the severe downturn in the auto industry and the rest of the manufacturing economy. In the past few weeks, Grede has laid off hundreds of workers at its plants in Minnesota, Wisconsin and Michigan. A factory manager at its St Cloud, Minnesota foundry, said orders are down 65 percent compared with a year ago. At the end of April, they announced they will be closing their Greenwood, South Carolina automotive foundry in an area already hit with 14% unemployment.

AFS estimates that we could lose another 30 foundries in the next six to nine months, if we do not see a rebound in the automotive sector and economy in general. Attached is a list of metalcasting facilities that have announced layoffs and closures in the past six months and reported in the press. There are many more shops that have instituted layoffs but are not covered in news reports.

With little attention being focused on the lower tier suppliers, we need Congress' and the Obama Administration's support to help ensure the survival of the Tier 2 and 3 metalcasting suppliers. A recovery plan for GM and Chrysler is simply not viable unless it takes into account the entire automotive supply chain, including metalcasting suppliers of small and medium-sized businesses who supply Tier 1 companies.

The decision by Chrysler to file bankruptcy and shut down its plants during bankruptcy could not have come at a worse time for our parts suppliers, whose revenues have fallen sharply. They are already trying to figure out how to survive the other recent surprise news that GM would shut many of its plants for most of the summer. These shutdowns could be disastrous to many metalcasters because they are already operating on paper thin profit margins because of previous production cuts and strong-arm pricing tactics from the Detroit Three. During the shutdown, suppliers will not be able to ship parts to GM or Chrysler and will lose critical revenue.

A number of smaller, Tier 2 and 3 suppliers could fail because of the extended assembly plant shutdowns for the next several months. This potentially could pose a problem for suppliers that purchase parts from these smaller suppliers, or even indirectly force automakers to temporarily idle some plants. Industry experts now anticipate a third of auto parts suppliers may go out of business in the next 3 years.

As we move to more fuel efficient vehicles, the metalcasting industry can play an important role in producing safe, but lighter weight vehicles. We have been leading the charge to redesign heavier steel and iron parts to lighter weight aluminum and magnesium components throughout the automobile. These conversions have occurred in the engine with blocks and heads to the brake and suspension systems with discs and crossmembers to the auto body with instrument panels. AFS is currently working in conjunction with the U.S. Army to research and develop light metal alloys for military application. The findings of these studies will provide lighter and stronger materials for our

defense systems while increasing service life. These same applications can and should be applied to the auto industry.

With the layoffs of engineers from the Big Three, the automakers are going to have to rely even more on their supply base to re-engineer the various component systems on their automobiles. So if we aren't here, who is going to help?

The fate of thousands of workers who make up the supply chain in hundreds of communities across the country depend on fair treatment by GM, Chrysler, our government and bankruptcy process.

Competitive Challenges Facing the Metalcasting

In addition to the downturn in the automotive sector, the metalcasting industry must overcome a multitude of domestic and international challenges. It's no secret that small businesses are the main engine of innovation and job growth in the U.S. economy. Today, as the nation struggles to regain its footing, policymakers and lawmakers need be working in a bipartisan manner to provide us with the tools we need to grow and prosper not laws that will further harm our industry. We are particularly concerned with the following pieces of pending legislation:

Taxes. It is tough to imagine that any U.S. manufacturer would endorse the kind of heavy tax increases called for under President Obama's FY 2010 budget. Small businesses represent more than half of the "individuals" to be hit by over \$1 trillion in tax hikes in the next decade. Additional tax hikes on American businesses will cost employers nearly \$300 billion over the next 10 years and tax increases on capital gains and dividends will only further deplete critical capital re-investment and consumer spending. Squeezing the most productive sectors of the economy is no way to kick-start a languishing economy.

Climate Change. AFS is strongly concerned that the aggressive cap-and-trade provisions contained in the Waxman/Markey discussion draft, *The American Clean Energy and Security Act of 2009*, which would dramatically increase energy prices and continue to drive U.S. metalcasting facilities offshore. All metalcasters, even those not covered under the cap-and-trade proposal, will see energy costs increase exponentially. We operate under extremely tight profit margins, and

higher energy costs could ultimately mean the difference between staying in business or having to shut the plant doors. Any legislation must contain a strong competitiveness provision. Chinese metalcasters use inefficient melt methods and furnaces, resulting in approximately 200% more GHG emissions than their U.S. counterparts for each ton of castings shipped. We are already experiencing a significant amount of off-shoring of castings – the discussion draft in its current form will only force more of our customers offshore.

Card Check. The Employee Free Choice Act in its current form is a job killer. It would strip workers of the right to vote for union membership by private ballot. If a recently formed union does not agree to a labor contract with an employer, a government arbitrator steps in to determine salaries, benefits and working conditions. Jobs are not created by government arbitrators or unions — they are created by the small businesses who would be hardest hit by this idealistic law and are in the most favorable position to work out mutually beneficial working parameters with their employees.

Unfair Trade Practices / Currency Manipulation. Our government’s current trade policies have dramatically affected the viability of our industry. The future of the U.S. domestic metalcasting industry and its jobs are severely threatened by the increase of imported castings, as offshore facilities have grown to meet more than 23% of the demand in the U.S. A number of U.S. trading partners, most prominently China, have actively pursued policies that undervalue their currencies and subsidize their manufacturing sectors. Since 1994, the Chinese government has undervalued its currency by as much as 40 percent. This practice artificially lowers the cost of Chinese castings, since Chinese foundries receive a 15 to 40 percent subsidy on their casting exports. This makes it virtually impossible for domestic foundries to compete fairly.

The U.S International Trade Commission (ITC) Section 332 fact-finding investigation into the competitive conditions facing the U.S. metalcasting industry issued in May 2005, revealed that foundry customers and prominently the Detroit Three, “significantly increased their purchases of foreign-produced castings at the expense of U.S.-produced castings, primarily because of lower

foreign pricing.¹” Furthermore, the ITC report indicated that China was a major source of the cheap imports flooding the U.S. market. This huge surge in imported castings has directly contributed to the loss of thousands of foundry jobs and numerous foundry closures in recent years, as well as having a negative impact on the total U.S. manufacturing sector.

Furthermore, our members are not just competing against other global companies – they are competing against a Chinese government that strongly supports its manufacturing sector and engages in illegal practices through a web of subsidies in clear violation of its World Trade Organization obligations. The Chinese government is subsidizing the purchase of raw materials and energy and/or providing them below cost via state-owned enterprises. In fact, China’s government controls the price of gasoline and electricity, thereby allowing Chinese manufacturers to obtain these vital items at subsidized prices.

Since January 2009, China has announced stimulus plans for ten of its manufacturing sectors including: vehicles, steel, shipbuilding, machinery, textiles, electronics, and information technology. The majority of these sectors require metal castings. We simply cannot compete fairly against more subsidies.

Moreover, American metalcasters must compete against Chinese, Brazilian and Indian plants that have much lower labor costs, pay very little or nothing at all for health insurance, and have lax or nonexistent environmental regulations and safety standards. The Chinese social safety net is inadequate. There is no universal Social Security, less than 20 percent of workers have pensions, and less than 15 percent are covered by unemployment insurance.

Our association members continue to see their customers move offshore because of these lower costs. For example, one family-owned facility in Georgia reports that one of their customer’s moved in excess of \$1 million of production of actuator castings for oil and gas pipelines from their plant to China in the last year or so, and of another customer that has moved close to \$2.0 million in castings for commercial lawnmowers to China.

¹ "Foundry Products: Competitive Conditions in the U.S. Market" ([Investigation No. 332-460, USITC Publication 3771, May 2005](#)), - www.usitc.gov.

Unfortunately, the U.S. Department of Treasury in its semi-annual reports has persistently chosen not to cite China for exchange-rate “manipulation” within the meaning of the International Monetary Fund’s Articles of Agreement. The report claims that it cannot be determined if China’s policy of undervaluation is intended to gain an unfair competitive advantage in trade or to prevent adjustments in China’s balance of payments. AFS feels this longstanding approach by the Treasury Department has been fruitless and will remain so, and therefore, a legislative strategy needs to be adopted to hold countries like China accountable under their international legal obligations.

Since China continues to enjoy the benefits of membership in the international economic community, it is only fair that it abide by the community's rules and responsibilities. The time for change is now, before our industry and the rest of U.S. manufacturing is put further at risk. American foundries and workers cannot compete when the playing field is rigged which is what China and some of our other trading partners have been doing - rigging its currency at a level that economists agree is substantially below its fair value and engaging in unfair trade practices.

It is time for the Congress to hold China and other countries accountable to their World Trade Organization obligations, especially against currency manipulation and the illegal export subsidies that enable these producers to sell below real costs. The yuan, the yen, and other currencies remain badly undervalued against the U.S. dollar.

We urge you to support the proposed bipartisan currency manipulation bill, *The Currency Reform for Fair Trade Act*, which will be introduced this week by Representatives Tim Ryan (D-OH) and Tim Murphy (R-PA). The measure would allow injured American industries to seek either countervailing or antidumping duties in a manner consistent with U.S. obligations under the WTO. It is time for our government to insist that all our trading partners adhere to the rules of trade that make for fair trade.

We remain deeply concerned that the United States is not changing its failed economic policy with respect to manufacturing. By neglecting manufacturing, our nation will have one less engine to fuel its economic recovery and is in danger of again traveling down the same policy road responsible for America’s present economic failures.

Conclusion

The weakness of most all the metalcasting suppliers is that they are dependent on the over-arching auto sector in a way that makes them extremely vulnerable. A supplier can be as well-run and efficiently managed as possible, but if the auto industry is not made materially healthier along the way, nothing the suppliers do will matter. The auto industry can and must operate under the same standards of lean manufacturing, development of strong domestic suppliers and prudent fiscal management that even the smallest of tier 2 and tier 3 metal casters operate. With the incredulous amount of resources they have at their fingertips, the auto industry should be the leader of American manufacturing and not the death knell.

As Congress and the administration invest billions of dollars into Chrysler and GM, it is imperative that we help ensure the survival of Tier 2 and 3 companies in the supply chain. A recovery plan for Chrysler and GM is simply not viable unless it takes into account the entire automotive supply chain, including the metalcasting industry's small and medium-sized businesses who supply Tier 1 companies. Any restructuring plan must preserve jobs in the U.S. and not shift more of GM's and Chrysler's manufacturing footprint from the U.S. to Korea, Japan and China.

The future of our country is intertwined with the success of our manufacturing industries. A country that manufactures less and less will find itself in a weakened position as time passes. Our country, and all that it stands for, is dependent on a strong economy. We cannot have such without a strong manufacturing presence.

Thank you, and I welcome any questions.

Attachment: Metalcasting Plant Closures & Layoffs (12/08 – 5/09)

Metalcasting Plant Closures & Layoffs **12/08 – 5/09**

Superior Industries International Inc. - Pittsburg, KS – Closing 600 Jobs Impacted – 10/1/08 –
The aluminum automotive wheel metalcasting facility will close by Dec. 19. The closure will result in approximately 600 layoffs and is in response to reduced demand for SUVs and light trucks.

Dalton Corp., Kendallville, IN - Closing Foundry 200 Jobs Eliminated – 12/11/08 - In March 2009, Kendallville Foundry will close and eliminate 200 positions. Because of the recession and the economic problems facing the foundry industry, they decided to close the facility. Dalton makes gray iron castings for air conditioning, refrigeration, engine heads and other products. The plant ranks among the largest local employers.

West Irving Die Casting – Sandwich, IL – Closing Foundry 200 Jobs Eliminated – 12/31/08 –
West Irving is eliminating 200 jobs as the automobile industry's woes continued. Toyota and GM canceled orders or cut their business with the company, and the entire firm is unable to stop the hemorrhaging of \$750,000 a month, according to a consultant with the company on its closing.

Amsted Rail – Granite City, IL - 363 Foundry Layoffs – 1/5/09 - Chicago-based Amsted filed the notice in December with the Illinois Dept. of Commerce and Economic Opportunity that will be laying off 363 workers in the coming month. It produces steel castings for freight car and automotive manufacturing.

Ford Motor Co., Brook Park, OH – Closing Foundry in 2010 – Over 1,000 Jobs - 1/5/09 -
This foundry produces cast-iron engines for Ford F-Series Super Duty trucks, Ford E-Series vans and Ford Expedition and Lincoln Navigator SUVs. It has 1,100 hourly and 118 salaried workers. It is slated to close in 2010. While Ford is closing facilities in the U.S., it just opened its newest plant in Nanjing, China because of lower overall operating costs. Ford could begin exporting cars from China in the near future.

TRW Automotive - Warrenton, GA – Closing Foundry 215 Positions Impacted – 1/14/09 –
TRW Automotive announced it will cease manufacturing operations at its Warrenton Casting Center, a gray iron automotive metalcasting facility at the end of the first quarter of 2009. The metalcasting facility employs about 215 people. TRW produces electronic, steering, braking and occupant safety systems for more than 40 vehicle manufacturers.

Navistar International Corporation – Indianapolis, IN – Closing Foundry 700 Jobs Impacted - 1/27/09 – Navistar will close its Indianapolis engine plant and as a result of changes in its business relationship with Ford Motor Company, the facilities' primary customer. Ford and Navistar previously announced that they will end their diesel engine supply agreement. Navistar intends to cease operations at its Indianapolis campus as of July 31, 2009. About 700 people will be affected.

J.L. French Automotive Castings Inc. – Sheboygan, WI – Permanently Lay off 337 - 1/28/09
– The company said it now will permanently lay off 337 from its plants beginning Jan. 30. The

company is a designer and manufacturer of engineered aluminum die-cast automotive parts, including oil pans, engine front covers, engine blocks and transmission cases.

Superior Industries International Inc – Van Nuys, Calif – Closing/290 Jobs Eliminated –

1/13/09 – Automotive wheel supplier Superior Industries will close by June 2009. The closure will eliminate approximately 290 jobs. Superior produces aluminum automotive wheels in both the forging and metalcasting processes. The closing represented an effort to reduce costs and lower capacity to match shrinking demand for light vehicles. Superior counts Ford, General Motors, Chrysler, as well as many foreign car companies as customers.

Stroh Die Casting, Milwaukee, WI – 60 Layoffs – 2/20/09 – notified the state that it plans to lay off 60 workers, according to a notice filed with the Wisconsin Department of Workforce Development.

Gibbs Die Casting – Henderson, KY – Reports 28 layoffs – 2/20/09 – Citing the continued downturn of the auto industry, Gibbs Die Casting Corp. announced the layoffs of 28 salaried and hourly employees from its Henderson plant and headquarters. A company spokesman said the “unprecedented downturn” in the auto industry “has caused Gibbs Die Casting Corp.’s sales to fall more than 30 percent.” Gibbs makes aluminum and magnesium engine, transmission and other castings for vehicles.

Fort Wayne Foundry Corp. – Fort Wayne, IN – Closing Plant --226 Positions --3/03/09 --174 employees at the company” Lima Road division will be laid off in June, along with 52 workers at its machining division at the same time. The company makes aluminum engine parts and says the cuts are due to the downturn in the automotive industry. Their only customer is GM.

Brillion Iron Works – Brillion, WI – Lay Off 265 --3/24/09 --Brillion Foundry is laying off 80 workers. It makes castings for semi-trucks.

Carlton Creek Ironworks, Inc – Rothbury, MI – Shut down indefinitely / 188 Workers

Impacted – 4/6/09 --A company created to manufacture high quality castings for the wind turbine industry, has shut down its Rothbury plant indefinitely.

Caterpillar Inc. – Mapleton, IL – Lay Off 200 foundry workers – 4/10/09 --Caterpillar Inc.’

woes have reached the company” foundry in Mapleton, where nearly 200 employees --most of them production workers --will be laid off at end of the week. A drop in demand for Caterpillar” large engines manufactured at its plant in Lafayette, Ind. was the chief cause of the Mapleton layoffs. Much of the work done at the foundry was for engines produced at Lafayette.

Kirsh Foundry Inc. – Beaver Dam, WI – Lays Off 60 --4/17/09 – A manufacturer of engineered

iron castings will institute layoffs because of an “unprecedented” decline in order. It has laid off more than a dozen workers and expects to lay off as many as 60 more employees in the coming months. All of the layoffs are expected to be temporary, although the firm could not determine a specific duration. Kirsh Foundry supplies manufacturers like Caterpillar, Ingersoll-Rand, Emerson Electric and Eaton Corp.

Elmira Pattern & Foundry --Elmira Heights, NY – Closed --4/20/09 --has halted production and is going out of business, a victim to the economic slowdown. Although the company specializes in aluminum castings, its pattern shop makes molds for outside foundries that use other metals in their processes.

Waupaca Foundry – Tell City, IN – 200+ Jobs Cut – 4/24/09 --About 45 workers at Waupaca Foundry Inc. lost their jobs this week. Since early February, the foundry has lost 190 workers, lowering the total there to just below 700. The company blamed the reduction on declining sales to the automobile industry. Waupaca Foundry makes iron castings used for brakes, suspension systems, housings, crank shafts and similar parts.

Grede Foundries Inc. --Greenwood, S.C. – Closing Foundry – 165 Jobs – 4/24/09 – Grede announced it will close this foundry within the next 60-90 days. The plant produces gray and ductile iron components for the automotive market and other industrial markets. The unemployment rate for Greenwood County is approaching 14%.

Donsco Inc.– Mount Joy and Belleville, PA – Layoffs of 158 --4/28/09 – A Pennsylvania foundry with facilities in Belleville, Wrightsville and Mount Joy, could begin temporary layoffs starting June 22. Donsco produces gray and ductile iron castings for industrial clients. A total of 73 employees could be affected by the temporary layoffs in Belleville. In addition, the Mount Joy facility anticipates a temporary layoff of 85 people. Approximately 450 people work at Donsco facilities in Mifflin, York and Lancaster counties.

Grede Foundries Inc. – Wauwatosa, WI – Layoffs of 81 --5/1/09 --Grede blamed the layoffs from the Liberty Foundry, at 6332 W. State St., on the "“ontinued downturn in the economy and the substantial reduction in production orders.””The company said it is likely that the employees may be laid off for six months or more.

Grede Foundries, Inc. – St. Cloud, MN – Lays Off 130 --5/5/09 --will lay off 130 people. The decision followed GM’s announcement it would close its plants for up to nine weeks this summer and because its biggest customer Chrysler announced it would file Chapter 11 bankruptcy.

Trace Die Cast --Bowling Green, KY --Lay Off 135 workers – 5/4/09 --Trace Die Cast announced that it will lay off 135 workers. It is a Tier One and Tier Two supplier of aluminum die castings for the automotive industry.

Pace Industries --Monroe City, MO – Lays Off 80 --5/5/09 --The impending shutdown of General Motors plants around the nation will mean Pace Industries will lay off another 40 employees starting Thursday. In January, the company let go 40 of its 260 workers and cut production from three shifts to two.

GM Foundry Plant – Defiance, OH – Idle for 9 Weeks - 5/7/09 --General Motors Corp. says it will temporarily close all or portions of 23 engine, transmission, and parts factories across the United States for several weeks because vehicle-making plants also will be idled. About 1,500 workers at GM’s Defiance foundry plant will observe “rolling down weeks” beginning Monday through the traditional two-week shutdown that begins June 29, with production set to resume July 13.

Grede Foundries Inc. – Wichita, KA --Lays Off 87 – 5/9/09 --Grede Foundries gave 60-day layoff notices this week to 87 workers at its Wichita operation. The foundry, at 805 E. Boston, has been in Wichita for decades and employed 240 workers as recently as 2006.

Grede Foundries Inc. – Reedsburg, WI – Lays Off 135 – 5/11/09 --The Reedsburg Foundry of Grede Foundries, Inc. will temporarily reduce employment levels in response to General Motors' announcement to shut down their operations for up to nine weeks this summer and Chrysler' announcement to file Chapter 11 bankruptcy. Over the last three weeks, the plant has temporarily reduced its workforce by approximately 135 employees

Quad City Die Casting, Moline, IA – Closing July 12 – Over 40 Jobs – 5/11/09 – Family-owned Quad City Die Casting Company in Moline is closing its plant on July 12th. Quad City Die Casting makes aluminum die castings and other castings for several companies including Kawasaki. Dozens of people will lose their jobs.

*Note: This data is based on media reports from December 2008 to May 11, 2009