The Manufacturing Council
WASHINGTON, D.C. 20230

May 7, 2008

Dear Mr. Secretary:

As a follow up to our meeting last May, members of the Manufacturing Council attended the Clean Energy conference and held a public fact finding meeting to seek solutions to lower energy costs and expand energy supply.

What we took away from the meeting underscores our position in the first letter. Manufacturers support the expansion of energy from all sources; oil, gas, coal, nuclear, renewable and alternatives. We need energy from all of these varied sources to create and keep jobs and to meet the growing needs of our population and economy. There is no single answer to the complex problems of maintaining and expanding our supplies of affordable energy. Both the short term problem of providing adequate supplies of liquid fuels at reasonable prices, and the longer term problems of transitioning to permanent alternative energy sources, must be addressed in a single comprehensive energy policy. As one example of the challenges we are facing in this country, under current state and federal licensing and approval procedures it can easily take 10-15 years or more to bring a major new energy facility on-line. Other countries do this in less time with far fewer bureaucratic obstacles. These long lead times in the U.S. exacerbate our dependence on costly imports and hamper our ability to become an exporter of fuel products produced from one of our most abundant natural resources - coal. Our coal reserves, which are among the largest of any country on the planet, combined with our financial and technological resources, could allow the U.S. to become the world's largest producer of alternative liquid fuels. However, we believe that major changes to existing administrative and regulatory procedures are required in order for industry to view this as a commercially viable endeavor. It is our position and belief that current and pending federal legislation lacks any serious effort to expand domestic production of oil and natural gas, coal products, and nuclear power.

Our government has the power and the knowledge to create a roadmap to achieve a clean, affordable and stable supply of energy through consistent policy. The question in our minds – and our greatest concern - is whether it has the will to do so. A comprehensive and strategic federal energy policy that rewards innovation and the development of renewable or low-impact alternative energy will allow industry to plan and invest with confidence. For example, while wind and solar have seen steady increases in production and investment, federal tax breaks set to expire at the end of the year could stall future growth. Companies that have invested millions of dollars in this industry are getting nervous. Renewable industry experts predict that, without prompt action by our government, next year's market growth rate in these two key sectors will decline. According to the American Wind Energy Association (AWEA), after tax credits available to investors in wind energy development expired in 2004, the amount of installed wind energy capacity fell by 77%. The U.S. wind energy industry currently employs 45,000 people and received a total of $9 billion in investment in 2007; a 45% increase from 2006. The AWEA predicts that by 2030 almost 500,000 U.S. workers could be employed in this industry. But renewable energy production depends on investment, and investors must have confidence that

they will receive a reasonable return on their investments. We believe that this confidence can only be sustained and enhanced through enactment of a comprehensive federal energy policy which encourages production and investment.

The Manufacturing Council endorses extending the Production Tax Credit for renewable energy applicable to electricity generated from wind, solar, geothermal and other sources, as well as energy efficiency rebates. Other possible investment incentives include research and development tax credits and expanding the availability of federal job training funds to sustainable energy industries. There is an opportunity here to restore some of the 3 million jobs in manufacturing that have been lost. With proper incentives, thousands of "green-collar jobs" could be created ranging from ethanol production to wind turbines and solar panels, and all the maintenance and construction to support them.

Plentiful, affordable energy is essential to the economic activity that sustains and improves our quality of life. Over the coming decades, energy demand will continue to grow as global economies and populations expand. Conservation, through the prudent and efficient use of energy, is a business practice that has become ingrained into the culture of American manufacturer's since the first "energy crisis" in the mid-1970s. By participating in the Energy Star and Save Energy Now programs, U.S. companies have achieved significant improvements in energy efficiency. However, a large portion of these energy savings have come from low-cost investments and no-cost operational improvements; the so-called "low hanging fruit". As these initial opportunities are exhausted, further energy savings require ongoing capital investment.

Our council stands for the premise that manufacturing is vital to America's future. Manufacturing is the engine that drives our economy and has helped to create and sustain the middle class. For every one manufacturing job created, the economy responds by creating three jobs in support industries. Yet we believe many of our policy makers don't fully recognize or appreciate the value of U.S. manufacturing. We need to continue to raise the awareness of the importance of manufacturing to our economy and our quality of life.

The National Association of Manufacturers has performed a computer-based analysis of the impact to the US economy and its manufacturing sector of two different scenarios - one having oil going to $130/barrel and another with it falling to $55/barrel. The manufacturing production and employment impacts are perhaps the most telling. In the first analysis model the price of oil is presumed to increase in $5 annual increments through 2015. In the second model the price of oil is presumed to fall in $5 annual increments through 2015. Here are the results of the analysis:

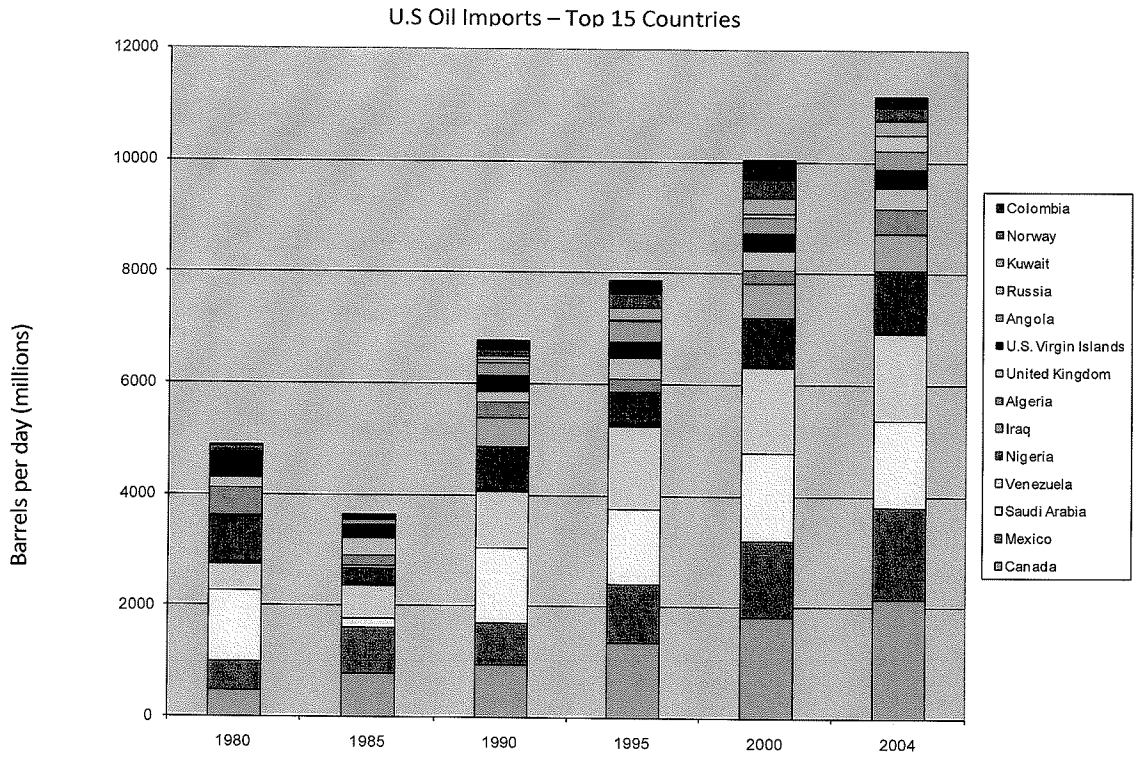
Inflation: With the higher oil prices in the first scenario, the Consumer Price Index (CPI) increases by 22% between 2007 and 2015. This is 3 percentage points greater than the forecast 19% rise in inflation if oil prices moderate per the second scenario.

GDP: Higher inflation reduces real GDP growth. Due to higher oil prices, real GDP is $198 billion lower by 2015 in the first scenario than in the second scenario. This corresponds to a 24% total growth between 2007 and 2015 as opposed to 22% with higher energy prices. This equates to 8% less growth.

Manufacturing Production: Under the first scenario, manufacturing production rises by only 7.6% between 2007 and 2015. This is 15% less than the nearly 9% rise in manufacturing production under the second (lower oil prices) scenario.

Employment: Due to slower growth from higher oil prices, the economy creates 300,000 fewer jobs in the higher oil prices scenario compared to the lower oil prices scenario.

The U.S. currently imports more than 60% of our oil requirements. Some of our major oil suppliers are located in countries whose governments are unstable or openly hostile to the United States. The chart below summarizes the U.S. dependency on foreign oil supplies. This situation demonstrates just how vulnerable the U.S. and its economy are to the whim of foreign governments, the power of international cartels, and the invisible hand of the global market. These vulnerabilities only serve to increase the urgency for a comprehensive federal energy policy which seeks to both slow demand growth through energy efficiency, and increase energy supply through a significant boost in domestic production through renewable sources.



The Manufacturing Council thanks you for your strong leadership. We respectfully request that you forward this letter to United States Congress as well. Congress needs to affirm our common interest of assuring stable energy supplies for the good of our economy and our country. Energy security is vital to the manufacturing sector not only as a utility cost item but also because it affects the price of many of our feedstock. Our future economy and quality of life depend on a sound energy policy.

Sincerely,

Fred Keller
Chairman