



Oil City Iron Works, Inc.
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“Our Nation of Builders: Manufacturing in America”

Testimony of

**Eric Meyers
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Before the

**Committee on Energy & Commerce
Subcommittee on Commerce, Manufacturing and Trade
U.S. House of Representatives**

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Summary for Testimony of Eric Meyers - Oil City Iron Works, Inc.

Background

Oil City Iron Works is a family-owned third generation manufacturing facility, employing over two hundred employees. Our foundry manufactures thousands of different types of iron castings for the energy, mining, agriculture, waterworks and transportation sectors. Our plant was established in Corsicana, Texas over 125 years ago at the start of the oil boom and is situated only two blocks from the site of the first oil well west of the Mississippi. The energy sector continues to play a dominant role in our business today. It is vital that we continue to expand access to our domestic energy supply in order to meet current needs for affordable energy, including the building of the Keystone XL Pipeline. Establishing new stringent regulations on the energy sector will hurt foundries, the long-term health of the U.S. economy and the prosperity of American workers.

Challenges to U.S. Foundry Industry

The U.S. metalcasting industry is comprised of 2,000 operating casting facilities, which is down from 2,336 five years ago. 80% of U.S. foundries employ 100 workers or less. Our industry is facing the most intense global competition in our history and significant challenges from the increasing costs associated with federal regulations and other actions by our government. Manufacturers like me face a 20% cost disadvantage in the United States. Access to affordable energy sources will help the foundry industry better compete against growing global competition and create more jobs. However, there are a number of roadblocks that stand in the way of our competitiveness including:

U.S. Tax Policies - We need competitive tax policies. Our ever-changing, often expiring, short-term changes to the tax laws make it increasingly difficult for foundries to do any long-term tax or financial planning. Depreciation is an area of the tax law where uncertainty has a significant impact on our capital expenditure decisions. The difference in 50% bonus depreciation, 100% bonus depreciation and no bonus depreciation is substantial. The change in the tax law determines whether we purchase an asset this year or perhaps not at all, or whether we hire additional workers.

Federal Regulations - While some regulations are necessary, the current regulatory system is out of balance and a significant impediment to the competitiveness and growth for our industry. We are alarmed by the wave of new regulations from a host of federal agencies. There also seems to be no recognition of the cumulative impact of these regulations. Despite greenhouse-gas emissions falling significantly in the U.S., EPA is imposing a suite of regulations on the utility sector over the next five years with little regard for their impact on manufacturers. OSHA has submitted its rule for crystalline silica to OMB that is expected to mandate extensive and costly engineering controls. The best way to protect workers is stronger enforcement of the existing standard. An economic analysis reveals that the annual compliance costs of the rule will likely reach \$5.5 billion for all industry sectors. The metalcasting industry is estimated to face compliance costs of roughly \$2 billion per year - making our sector one of the most heavily impacted industry sectors among all those affected.

Health Care - Our current healthcare insurer estimates that our premiums for the health care portion alone will increase nearly 13% in 2013. The implementation of the Affordable Care Act appears that it will result in pushing everyone into a single payer government run health care system.

Shortage of Skilled Workers - Adding to the challenges of regulatory overreach is the fact that hundreds of thousands of manufacturing jobs remain unfilled due to the lack of qualified applicants. The Class A electrician position at our foundry has been vacant since June 2011, with no qualified applicants. We can't find welders or pattern makers. The skills gap threatens foundries' ability to grow.

Foreign Competition - Imported castings now comprise nearly 25% of the market, with more than a quarter of these imports coming from China.

Need for Infrastructure Investment - Our nation's transportation and water utility infrastructure system has reached the limits of its capacity. The need for investment far outpaces the amount of funding that is available at all levels of government.

Chairman Terry, Ranking Member Schakowsky and members of the Subcommittee, thank you for the opportunity to testify before you today to discuss the opportunities and challenges facing our company and the foundry industry, as well as ways to make American metalcasters and manufacturing more competitive in the global marketplace.

My name is Eric Meyers, President of Oil City Iron Works. I am a third generation Texas metalcaster employing over two hundred employees. Our metalcasting business has been in existence for over 125 years, with our family operating it for close to fifty years. Our foundry manufactures thousands of different types of iron castings ranging in weight from 2 to 8,500 pounds for the energy, mining, agriculture, waterworks and transportation sectors. Unfortunately, most of our castings were too big and heavy to carry to Washington, D.C. However, I have brought several pictures which are attached to my written testimony and here on the table that show some of the castings we supply to well-known companies such as Caterpillar, Halliburton and FMC, as well as smaller ones. These castings include: valves and pumps for power generation, gas turbine and compression parts, and general oilfield equipment parts.

Despite the overwhelming positive impact manufacturing has had moving the country out of the recession; the sector continues to face significant challenges. Our nation has created barriers to competitiveness and has made it harder to manufacture in the United States.

Background

In 1886, Oil City Iron Works was established in Corsicana, Texas at the start of the oil boom. In fact, our facility is just two blocks from the site of the first oil well west of the Mississippi. Since the turn of the century, the foundry has been primarily dedicated to the oil market and the energy sector continues to play an essential role in our business today.

In 1965, my grandfather purchased Oil City Iron Works. Then my father ran the operations and he later bought the foundry from my grandfather in 1987. I began working part-time at our company in 1992 during the summers and joined the foundry full-time in 2000 after graduating college. I subsequently became president in 2008. My grandfather and dad taught me not only to make quality castings, but underscored the need to invest in our employees and the plant. My dad is now partially retired, but still works closely with me on budgeting and major projects. I am an active member of the American Foundry Society (AFS), our industry's major trade and technical association, which is comprised of more than 8,500 members in every state in the country, as well as our Texas state Chapter.

In order to compete in the global marketplace, Oil City has continually invested in its employees, new equipment and technology, which has allowed us to reduce overall product costs, while consistently providing high quality parts. In our operation, we provide good paying blue collar jobs, health insurance and other benefits to our employees, whom we consider as members of our extended family. We are able to maintain a matching 401k program for our employees, as well as a scholarship program for every employee at \$2000 per semester per child.

The recession hit our company and industry hard, with dozens of foundries forced to shut their doors. Unfortunately, Oil City had to lay off nearly 80 employees when new orders dried up. We also saw some work go overseas where the same castings can be manufactured and fully machined for much lower prices. Because of the downturn in the economy, our company has worked especially hard to be conservative and proactive with all of our business decisions. This process has helped us recover and has provided us the means to rehire employees and return to our pre-recession workforce numbers. With an improving economy, we are cautiously looking to expand our operations for the future. However, I am reluctant to add new jobs given our concerns over increases in health care costs,

potential new federal regulations and growing tax bills that could adversely affect us.

Today's Oil City maintains a strong footing in the oil, gas, energy and power generation markets. In fact, the energy sector encompasses nearly 75 to 80% of our total business. My company and the foundry industry believes that America must continue to expand access to our domestic energy supply in order to meet current needs for affordable energy and shore up our energy security. Oil, natural gas and clean coal remain essential contributors to America's energy security. In addition, we strongly support the building of the Keystone XL Pipeline and urge the U.S. Department of State to approve the Presidential Permit necessary for this project to move forward.

The foundry industry supports an energy strategy that embraces all forms of domestic energy production, including nuclear power, hydropower, alternative fuels and renewable energy sources like wind energy and solar power. We are pleased to see the technological advancements in fracturing which have led to an abundance of natural gas production in the United States that is fundamentally changing the energy landscape. The result in the growth of all these sectors has provided more work for the foundry industry, more jobs, and consistently low domestic natural gas prices in what has known to be a historically volatile market.

To take advantage of the new energy boom, our foundry in recent years has made some new investments to accommodate for the demand of large castings in this important sector. As oil, general mining and natural gas continue to grow we anticipate that orders will continue to expand. Establishing new stringent regulations on the energy sector will hinder foundries, domestic manufacturers, the long-term health of the U.S. economy and the prosperity of American workers.

Background on Metalcasting Industry

The U.S. metalcasting industry is the sixth largest industry in America and the second largest supplier of castings in the world, after China. More than 90% of all manufactured goods and capital equipment use metal castings as engineered components or rely on castings for their manufacture. We produce both simple and complex components of infinite variety. From key components for aircrafts and automobiles to home appliances and surgical equipment, cast metal products are integral to our economy and our way of life.

The U.S. foundry industry is comprised of 2,000 operating casting facilities, which is down from 2,336 five years ago. Approximately 600 foundries produce iron and steel castings, while another 1,400 make aluminum, brass and bronze castings. The industry is widely dispersed throughout the country, with the highest geographic concentration of facilities in Alabama, Ohio, Pennsylvania, Indiana, Illinois, Michigan, California, Texas, and Wisconsin.

U.S. metalcasters ship cast products valued at more than \$20 billion annually and directly employ over 200,000 people. Our industry is dominated by small businesses, with over 80% of U.S. metalcasters employing 100 workers or less. In fact, many are still family-owned, like Oil City.

Castings are almost completely manufactured from recycled scrap materials. As a result, foundries take tens of thousands of old cars from our nation's highways and junkyards for use in the manufacture of our castings. Metalcasters produce more than 600 lbs of cast metal (aluminum, iron, steel, zinc and/or magnesium) for every vehicle on the road. 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.

Foundries are the mainstay of national defense. All sectors of the U.S. military are reliant on metal castings for jet fighters, ships, tanks, trucks, weapon systems and other vital components. In fact, the U.S. Department of Defense has established formal programs to convert fabricated components to single-piece castings, improving our military's ability to cost-effectively produce such equipment in the least amount of time.

Challenges Confronting Oil City Iron Works & US Foundries

Today, the metalcasting industry continues to face major roadblocks – by both the most intense global competition in our history and the increasing costs associated with new federal regulations and other actions by our government.

Based on a recent study conducted by the Manufacturers Alliance for Productivity and Innovation¹, it is 20% more expensive to manufacture in the U.S. compared to our nine trading partners. The primary driver of this cost differential is policy in the areas of regulation, taxes, and litigation. American metalcasters need sound policies in taxation, energy, labor, trade, health care, education, infrastructure and, certainly, regulation. Highlighted below are the key obstacles facing Oil City Iron Works and the foundry industry:

1. U.S. Tax Policy

We need competitive tax policies. Our ever-changing, often expiring, short-term changes to the tax laws make it increasingly difficult for foundries like mine to do any long-term tax, cash-flow or financial planning. These planning challenges are further compounded when tax laws are changed after the year has already begun, but are slated to take effect that same tax year.

¹ *Structural Costs of Manufacturing in the United States*, Jeremy Leonard, for the Manufacturing Institute and Manufacturers Alliance for Productivity and Innovation (MAPI) – 2011.

Depreciation is an area of the tax law where uncertainty has a significant impact on our capital expenditure decisions. The difference in 50% bonus depreciation, 100% bonus depreciation and no bonus depreciation is substantial and undoubtedly impacts our decisions. The difference in taxes can determine whether we purchase an asset this year, next year or perhaps not at all. It also impacts whether or not we will hire additional employees.

One of the most important tax incentives for Oil City and foundries is to invest in machinery and equipment to allow for faster cost recovery of the business property. Generally, small businesses are allowed to deduct the cost of capital expenditures over time according to depreciation schedules.

First, to help small businesses quickly recover the cost of capital outlays for qualifying personal property, qualifying foundries can elect to write off these expenditures in the year of acquisition instead of recovering the costs over time through depreciation. This expense election is commonly referred to as the “Section 179 election.”

For 2010 and 2011, small businesses were allowed to expense up to \$500,000 of capital expenditures. In order to ensure the incentive was only available to small businesses, the maximum expense amount was gradually reduced once qualifying property placed in service during the year exceeded \$2,000,000. For 2012, the maximum write off amount was \$139,000 and subject to reduction once a taxpayer’s aggregate expenditures exceed \$500,000. For 2013, the maximum expensing amount and phase-out threshold were scheduled to drop to \$25,000 and \$200,000, respectively.

The other incentive is commonly referred to as “bonus depreciation.” In previous legislation, Congress allowed businesses to more rapidly deduct capital expenditures by permitting an additional first-year write-off of 50% of the cost. For investments placed in service after September 8, 2010 and before December 31, 2011 (through December 31, 2012 for certain property), the law provided for 100% first-year depreciation.

In other words, the entire cost of qualifying property placed in service during that time frame can be written off, with no limitation. For the 2012 tax year, however, the law reverted back to allowing 50% additional first-year depreciation.

Over the past few years, we have averaged around \$2 million dollars in capital improvements for new molding, machining and add on processes equipment. We were able in large part to make these investments due to the tax advantages from the accelerated depreciation approved by Congress.

We currently have close to \$4 million in projects for which we are planning for 2013; however, much of this depends on the level of production for 2013, as well as how many new federal regulations will affect our capabilities to afford these planned projects.

We were pleased to see that the American Taxpayer Relief Act (ATRA), approved in early January, did extend the 50% bonus depreciation through the end of 2013. ATRA also included retroactive, as well as prospective amendments to the expensing election. Congress retroactively reinstated the \$500,000 limit for 2012 and prospectively continued the \$500,000 limit for 2013. In addition, the \$2 million annual investment limit was retroactively reinstated for 2012 and

prospectively continued for 2013. Unfortunately, we are still left with the uncertainty of whether the President and Congress will eliminate or extend these provisions for 2014 and beyond.

The on-again-off-again nature of these provisions, coupled with retroactive tax law changes, make long-term planning difficult, result in the filing of amended returns, and significantly increase the overall complexity. Future tax changes should be enacted with a presumption of permanency, except in rare situations in which there is an overriding and explicit policy reason for making provisions temporary.

2. Federal Regulations

While some regulations are necessary, the current regulatory system is out of balance and a significant impediment to the competitiveness and growth of my foundry and our industry.

Unfortunately, over the past several years, we have not seen sensible and cost-beneficial regulation being proposed by the government agencies. On the contrary, an aggressive effort by a wide variety of federal agencies continues to propose unworkable and excessive regulations with little regard for their impact on job creation and the economy.

In 2011, federal government agencies issued an unprecedented amount of costly final rules totaling 3,807, including 32 new major regulations (those costing over \$100 million). These new major rules will add \$10 billion annually in regulatory costs, along with \$6.6 billion in implementation costs. Thousands of more rules are in the pipeline. These additional costs will only add to the obstacles metalcasters face in creating jobs and expanding their businesses. Furthermore, we are frustrated with the continued use of costly one-size-fits-all type of regulations that are often ill-suited to small and medium-sized manufacturers. There are a number of measures that federal agencies can carry out, particularly related to improving the permit process and working with manufacturers when regulations are being written, that could significantly improve things.

OSHA Regulations - Foundries remain wary of the potential negative impact of three rules which are under development by the Occupational Safety and Health Administration (OSHA): crystalline silica, combustible dust and Injury Illness and Prevention Program. Of significant concern to the foundry industry is OSHA's development of a crystalline silica rulemaking. Foundries use large amounts of sand as part of the metal casting process.

Crystalline Silica: OSHA submitted for review its rule that would reduce, by half, the existing permissible exposure limit (PEL) for crystalline silica to the Office Management & Budget (OMB) on February 14, 2011. The proposed rule is expected to mandate extensive and costly engineering controls, as well as requiring employers to comply with a host of ancillary provisions.

Significant progress has been made in preventing silica-related diseases under existing regulations, making proposed changes unnecessary and overly burdensome. The best way to further reduce silica-related health effects and protect workers is stronger enforcement of the existing standard.

We believe the cost of this silica proposal would far exceed its benefits. OSHA has categorized the rule as economically significant - meaning it could cost \$100 million annually or more. An economic analysis performed by engineering and economic experts estimate that the annual compliance costs of the rule will likely reach \$5.5 billion for all industry sectors - manufacturing, construction, transportation, defense, and high-tech industries. The metalcasting industry would likely face estimated compliance costs of roughly \$2 billion per year - more than \$1.5 billion per year for engineering controls, and up to \$500 million per year for the ancillary requirements. A \$2 billion a year regulatory compliance cost would constitute about 7% of 2007 revenues for the foundry industry. It's a rare year when the foundry industry earns in pretax profits as much as 7%

of revenues; the total costs of this potential OSHA silica standard would thus exceed 100% of the industry's profits in most years.

These substantial costs for this rule alone make the foundry industry one of the most heavily impacted industry sectors among all those affected by the rule.

EPA Regulations - We are alarmed by a wave of new regulations that EPA is imposing on the utility sector over the next five years, despite greenhouse-gas emissions falling significantly in the U.S. As an energy-intensive industry, metalcasters are troubled by the increased electricity costs and reliability issues that will likely result from these new regulations.

U.S. foundries cannot produce castings without adequate and affordable supplies of natural gas and electricity. For many metalcasters energy is a key expense, only behind raw materials and labor in terms of costs of doing business. Melting is the most energy-intensive operation in metal casting operations, accounting for about 55% of the total energy use. Compared to other foundry sectors, energy costs are highest in iron foundries, such as Oil City, since the melt temperature is much higher for this metal. Continued access to affordable energy sources will help U.S. foundries better compete against growing global competition and allow us to keep and create more jobs.

Unfortunately, over the last two years, there are numerous specific examples of regulations and proposed rules by EPA that have a particularly burdensome impact on our industry, with little regard for their impact on job creation and the manufacturing supply chain. There also seems to be no recognition of the cumulative impact of these regulations.

Of particular concern are EPA's new Mercury and Air Toxics Standards for coal-fueled power plants, known as Utility MACT. The rule requires major overhauls at power plants around the country. It is forecasted to result in double digit electricity prices in about 30 states and threaten electric reliability.

On the heels of the Utility MACT, EPA proposed in March 2012 the first-ever greenhouse gas standards for power plants—a rule that will effectively ban any new coal-fired power plants in this country and could threaten existing coal-fired generation. The other major EPA regulations that will impact electric reliability include: Cross State Air Pollution Rule (CSAPR); the National Ambient Air Quality Standards (NAAQS) for ozone (to be proposed later this year), sulfur oxides, nitrogen dioxide, and particulate matter (finalized in Dec 2012); the Coal Combustion Residuals Rule; and the Cooling Water Intake Structure regulations.

According to a study conducted by NERA², the combined estimated costs of the 2012 EPA regulations (Utility MACT, Cross State Air Pollution Rule, Cooling Water Intake Rule, & Coal Ash Rule) is a staggering – \$127 billion. Since state laws allow the electric providers to pass all energy and environmental compliance costs through to the consumer, we expect our energy prices to increase substantially. Even a \$0.01/kWh increase in the cost of electricity imposes additional costs of nearly \$9 billion per year on domestic manufacturing facilities.

In addition, EPA has failed to consider the cumulative impact of its power sector regulations on grid reliability. In fact, no comprehensive study has been done to assess the effect on the price of electricity, jobs, reliability of electricity supply, and the overall economy. The Federal Energy

² *Potential Impacts of EPA Air, Coal Combustion Residuals, and Cooling Water Regulations*, National Economic Research Associates (NERA), September 2011.

Regulatory Commission (FERC) has questioned whether the compliance deadlines set forth in EPA's regulations are too expeditious to allow sufficient lead-time to replace retiring resources. So far, over 140 coal-fired electricity generating units in 19 states have announced they will retire by 2015. These retirements will create volatility within the electric grid if steps are not taken to balance the retirements with new capacity.

3. Shortage of Skilled Labor

Adding to the challenges of regulatory overreach is the fact that approximately hundreds of thousands of manufacturing jobs remain unfilled due to the lack of qualified applicants. Despite an unemployment rate hovering near 8%, manufacturers are struggling to fill jobs. Foundries rely on skilled workers to maintain and grow their companies. This skills gap threatens manufacturers' competitiveness and ability to invest in and expand their businesses.

Examples of our skilled labor positions include: Class A and Class B electricians, welders, CNC machinists, and pattern makers. Many of these positions have taken as long as seven months to fill. For example, our Class A electrician position has been open since June of 2011 with no qualified applicants. The pattern maker position took longer to fill due to the fact that there are no young people being introduced to the job opportunities in this field. Pattern making is an integral part of the casting process and a much needed position. Most experienced pattern makers are located in the northern portion of the country. The best southern foundries can hope for is an experienced pattern maker looking to move to a warmer climate. We have approached an area technical school to send graduating welders to us for possible employment; however, all those graduates are already promised positions with other Texas-based companies. Currently, we are working with our local college to implement a certificate program for welding. The foundry industry supports legislation, the America Works Act, recently introduced by Representatives Lou

Barletta (R-PA) and Brad Schneider (D-IL), which prioritizes federal workforce training funding toward these types of certifications and works towards streamlining federal training programs.

We are one of the first companies in our area to participate in the U. S. Citizenship and Immigration Services (USCIS) E-Verify program. Since 2006, Oil City has participated in this program to verify those individuals who may legally work in the United States. More and more companies in our area, including the employment agencies, are using E-Verify today because of our success with the program.

4. Health Care

Our company provides full healthcare benefits for all our employees, as well as dental and vision benefits. Our current healthcare insurer estimates our premiums for the health care portion alone will increase nearly 13% in 2013 -- this is in part due to the healthcare reform provisions implemented into law under the Patient Protection and Affordable Care Act. Keep in mind this is just our portion of the cost and does not include the costs for the employee to cover their spouse or children.

We shopped for competing plans, but every insurance provider that we approached quoted even higher premiums. We essentially had one choice -- pay 13% more for the same coverage or offer no coverage at all. The Patient Protection and Affordable Care Act is working as designed, not as its supporters said it would. It is raising costs while reducing options. It appears the end result will be to push everyone into a single payer government run health care system

5. Foreign Competition

Imported castings now comprise nearly 25% of the market, with more than a quarter of these imports coming from China where energy, labor, tax and material costs are substantially lower partly due in part to government subsidies. While we have begun to see some of the castings that

were sourced in China come back, primarily due to quality and uncertainty with lead times, China remains a threat due to our manufacturers. In order to remain a competitive industry, we must be able to compete at reasonable level. This simply means that we cannot sustain continuous tax increases and over regulations that kill manufacturing, otherwise the castings flooding our domestic market from overseas will continue to be a serious threat to American foundries and manufacturers.

6. Need for Infrastructure Investment

Our nation's transportation and water utility infrastructure system continues to age and reach the limits of its capacity. Lowering the cost of borrowing for infrastructure projects represents an important way to leverage local funding and help America rebuild its aging infrastructure. U.S. foundries can provide critical castings for these infrastructure projects.

Conclusion

Oil City understands and supports the need for reasonable regulations to protect the environment, worker safety and health. But we also recognize that our industry and the entire manufacturing sector are facing unprecedented pressures in their efforts to remain competitive in the global economy. To continue manufacturing momentum and promote hiring, the United States needs not just improved economic conditions, but also government policies more attuned to the realities of global competition.

The key is to find the balance between ensuring a safe and healthy workplace and allowing that workplace to compete in order to be able to continue to provide employment; that is where the current U.S. regulatory process is lacking.

The cumulative burden of a variety of new and proposed standards is nearing a tipping point. More than ever, it is critically important that we regulate only that which requires regulation, and only after a thorough vetting of potential benefits, impacts and costs of that regulation on businesses and the

manufacturing supply chain. Pro-growth policies will make our nation a more competitive place to do business.

In this current economy, it is clear that cost-ineffective regulations and increases in taxes dampen economic growth and will continue to hold down job creation. For some foundries, it will be the final straw that destroys their whole business. Thank you again for the opportunity to appear before you today. I would be happy to respond to any questions.

Attachment – Photos of Castings Produced by Oil City Iron Works

Oil City Iron Works – Corsicana, Texas

*Types of Iron Castings Produced by this Family-Owned Foundry
Range from 2 to 8,000 lbs. and all made from scrap metal.*



A large clutch plate casting used for energy exploration sector – weighs 1,264 lbs.



*Wood pattern for a cover plate in the drive reduction housing for
a gas turbine engine used by Solar Turbines.*



**Bearing Retainer Ring Castings
(Weighing 29 lbs each)**



Pouring metal to produce iron castings.