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Good afternoon ladies and gentlemen. It is a great pleasure for me to be here today to discuss a topic that has been the driving force of my professional life for more than 45 years: The noble profession of manufacturing.

I want to make one thing very clear right up front: Manufacturing is today, has been in the past, and will remain in the future one of the critical engines that drives the U.S. economy. It plays a key role in defining America's future as it is America's ticket to compete in the world of globalization. I refer to it as an engine, because manufacturing makes the highest contribution to economic growth of any economic sector. It also multiplies every dollar spent into an additional $1.37 in economic activity. That is greater than any other sector.

Manufacturing achieves a high productivity rate, year in and year out, increasing by more than 40 percent in the past decade. Furthermore, manufacturing contributes more than 60 percent of U.S. exports or about $50 billion a month!

Without manufacturing, societies decline. The history books document how the Roman Empire and the British Empire dismissed the world of manufacturing. It looks like the next chapter belongs to America, unless we change our course, rapidly and structurally.

Over the past several months, we have all seen what happens when a critical component of that engine, the automotive industry, breaks down. The auto industry has been slammed by:

- The collapse of the housing market
- The economy, and more specifically,
- Yo-yoing energy costs
- A credit crisis and leasing shutdown
- Global competition that migrated into this country, with a totally different cost structure, not saddled with exorbitant legacy costs like pensions, healthcare and economic escalators. Those foreign competitors have predominantly established themselves in business-friendly right-to-work states.

We are all aware that the domestic auto industry as we know it is at grave risk. We are a part of a global world, but America has not prepared itself to be globally competitive.

The violent confluence of events that struck our economy, and our manufacturing sectors in 2008 and 2009, is unprecedented in modern history. That is why it is necessary for bold and radical restructuring to adjust to the global economy and global markets so we can get America competitive again.

Contrary to popular belief, the Detroit that Washington D.C. loves to hate has not been existing in a vacuum. The American auto industry has been in various stages of restructuring for decades. The resizing and the cost structure adjustments are important steps in the process.

The next step will be even tougher and more demanding. It includes the redefinition of labor relationships along with the rationalization of brand portfolios, product offerings, installed capacity and dealer networks.

From the automotive industry dark days of November and December 2008 and the morass of rumors of impending doom and gloom to today, there appears to be a glimmer of hope for industry and value-added manufacturing. Thanks in no small part to the massive restructuring undertaken by the OEMs, with the assistance of the U.S. Government. Detroit is flexing one of its last sets of muscles to become a lean, flexible and relevant manufacturing machine.

Today, I am reaching out to the leaders in this room to help define how manufacturing and industry will help drive the growth and development of the U.S. economy for generations to come and the critical issue of jobs. None of us can control the brutal business conditions we are facing. But The National Summit is a timely and appropriate platform for us to help determine how to address those conditions.

The National Summit is a prime opportunity to define what manufacturing must be in the U.S.A.

It must be market and customer driven.
It must be value added.
It must be innovative and needed.
It must maintain and create jobs.
And, it must maintain a competitive cost structure to drive profitability and sustainability.

When AAM was created in 1994, globalization was expected to be the dominant marketplace factor for the following generation. Countries like China, India, Thailand, Brazil, Russia and others were the budding growth markets. So, AAM was created to become a global company. To remain viable and sustainable, a company must go where business takes it.

Today, over 80 percent of automotive manufacturing growth is projected to be outside of the United States. AAM's vision is driven by a Resize, Restructure and Recover business plan that addresses global growth, structural cost reduction, legacy labor elimination, and supply chain rationalization and localization.

The plan leverages: our reputation of world-class product quality; engineering expertise; the advancement of product, process and systems technology; reliability and durability; along with exceptional warranty performance, on-time delivery, and extraordinary launch performance provided for our customers. How are we doing that?

First, we expanded our global footprint into key growth markets: North America, South America, Europe, Asia and Australia.

Second, we invested in the development of new products that are diversifying and expanding our product portfolio to serve the growing crossover and passenger car market, while supporting the truck and SUV market and expanding into commercial vehicles. We continue to invest in technology that makes our products unique, and in manufacturing facilities that provide us with the flexibility to best serve our customers.

Third, we developed a plan to ultimately achieve a market competitive cost structure in all areas of our operations, along with the appropriate use of installed capacity to serve the rapidly changing marketplace.

I have always said, "Cost is the enemy." Risks that are borne by a business that translate to higher operating costs are the "structures" that impede U.S. businesses from competing. I define structural costs as risks the company has assumed over the years, things like:

A. Contracts, such as labor agreements with SUB pay, jobs banks, and automatic escalators

B. Tradition, such as industry having to provide healthcare, pensions and life insurance, and
C. Government directives and cost drivers, such as excessively high taxes, that are totally out of whack with global competitors.

It is no secret that regulatory costs burden U.S. manufacturers. It has been reported that manufacturers in this country face a 17.6 percent structural cost disadvantage compared to our nine largest trading partners. The study accounted for regulatory compliance, corporate taxes, health and pension mandates, litigation and rising energy costs.

More often than not, he who has the lowest cost wins. The best technology, innovative products, logistics plan and talented workforce will go for naught if you cannot get your product to market in a cost competitive manner.

At the beginning of 2008, AAM took the difficult but necessary actions to start bringing our domestic labor cost structure in line with our U.S.A competitors. The unfortunate and unnecessary 87-day strike called by the International UAW at AAM's original five plants resulted in changes to our labor agreements that are historic, transformational and structural. These new agreements are forging a path for AAM to have a cost competitive structure in the U.S. and will reduce our costs significantly on an annual basis.

Just as AAM began the implementation of this historic agreement, the dramatic reversal of fortunes for the entire domestic automotive industry unleashed its fury. Call it Murphy's Law.

The housing crisis, high gas prices, the credit crunch, and major spikes in commodity prices added to the mix produced an unprecedented reversal in the business environment. This has not just driven the U.S. economy but markets throughout the world into a synchronized, patterned downturn and global recession. First in the U.S.A., then Europe and now Asia and other far-reaching markets.

The combination of plunging consumer confidence, a pervasive shortage of credit availability to would-be car buyers, intensifying cost pressures, and increasing global competition is pushing auto sales to their lowest level since Oil Shock II (1979 -1982). In 2007, the SAAR stood at 16.2 million units. Since, we have seen a precipitous decline. In 2008, the SAAR was 13.2 million units. It is projected to be less than 10 million units for 2009.

Automotive OEMs and suppliers are not alone! All of manufacturing and industry are pressured by the needs and requirements of globalization.

The issues facing American manufacturing today are numerous, and, as much as we would like to, manufacturing cannot solve them alone.

- The current U.S. business model is driving a massive deficit. The business model must be fixed.
- Businesses are at a competitive disadvantage because of the U.S. tax structure.
- The transformation of the United States from a world-leading producing and manufacturing nation, to a consumer nation coincides with what some call the "dumbing down" of American society.

The U.S. trade deficit narrowed to $677 billion in 2008, from $702 billion in 2007. Conversely, China's trade surplus will swell to a record $325 billion this year, boosting its foreign-exchange holdings and adding pressure on the central bank to find an alternative reserve currency to the dollar. This is more than a one-trillion-dollar spread between the U.S. and China! China is the biggest overseas owner of U.S. government debt. China is currently holding notes totaling $744 billion at the end of this past February. The ships passed in the night, because the U.S. business model is broken. We need monetary and fiscal policy reformation.

While manufacturing and the domestic auto industry manage through and emerge from this meltdown, the U.S. government needs to assess its role in the decline of manufacturing, industry and employment in America. The leaders in Washington D.C. must acknowledge their major role in establishing the proper policies to ensure that America is once more the center of manufacturing and industrial excellence. Washington D.C. must address:

First and foremost, energy. We need a comprehensive energy policy, and we have needed one since 1973. Washington D.C. has had enough time. For the most part, slumps in vehicles production correlate historically with major events. In the mid '50s, there was a 35 percent decline due to a major recession. Most of us can remember the lines at the gas pumps that went down the block and around the corner for a quarter mile during OPEC I in 1973 to 1975. The lines returned when the Shah left town, in the 1979 to 1982, OPEC II. It was America's second oil shock within a seven-year period, yet nothing was done to revamp our energy policy.

These two events triggered the avalanche of investments from global auto competitors to produce in the U.S.A. Production started in 1978 for VW, Honda in 1982, Nissan in 1983, Toyota in 1984, BMW in 1994 Mercedes in 1997, Hyundai in 2005 and later this year, Kia. I also consider these two events the catalysts for automotive globalization. Yet, the only thing that has materialized from them was an ineffective set of CAFE standards. Nearly four decades later we are stuck without a comprehensive energy policy.
The price of fuel determines the types and sizes of vehicles consumers buy, and how they use them in America.

We all remember the effects on our industry from the fall of the Berlin Wall in 1989, followed by the Gulf War, and the collapse of the Soviet Union in 1991. These major events also played a role in the structural change of our industry. Then, in Year 2001, we, the U.S.A., supported China to join the World Trade Organization (WTO).
Of greatest concern more recently is the unprecedented roller coaster ride of oil prices. Many experts have called this Oil Shock III (2007 – 2010) and consider this a part of a longer-term trend toward higher energy costs, once again a structural change, not just a cyclical change. This is what is driving electrification, hybridization and alternative fuels in the automotive sector but with no true concept of the near-term or long-term price of fuel.

Detroit has poured tens of billions of dollars into the R&D of alternative fuels and driveline systems. And the truth is that the Detroit Three have been working diligently to develop the vehicles that consumers will need and are willing to buy. The critics forget that development is largely financed by selling cars and trucks that Americans want to buy now.

Like it or not, fuel efficiency is once again a pocketbook issue in the U.S.A. That is why America must have a coherent and comprehensive national energy policy.

With one, we can better predict consumers' energy use and manufacture the vehicles of the future to fit those needs. Without one, we have no notion if this week's two-buck-a-gallon gas will surge back up to $4.00 or $5.00 in the next quarter or two. Do we ride in the subcompact vehicle or the full-size car or truck? Without any ability to predict the market, how can OEMs and the supply base, in the capital intensive auto industry, tool up their factories?

Second, the government must address trade. We must have a level global playing field for American manufacturers by reducing foreign barriers to U.S. exports. The National Association of Manufacturers (NAM) is a strong supporter of reducing trade barriers through multilateral trade negotiations in the World Trade Organization (WTO) Doha Round, but also supports a continued effort to negotiate bilateral or regional free trade agreements. Free trade agreements are a proven way of eliminating foreign trade barriers.

Third, the leaders in Washington must tackle healthcare. The rising cost of health coverage is one of the greatest issues facing employers and our society. In America, we put healthcare on the backs of the industrial employers and say, "carry it." It has been a back-breaking burden for employers since 1942!

Fourth, the tax rate. One of the most severe problems in the U.S.A. is our tax rate. High taxes, like high regulatory costs, cannot be passed on to consumers in today's market in the form of higher prices. There is no price elasticity for it. With a "true" tax rate in excess of 40%, it is increasingly more difficult to do business in the United States. The Germans' Corporate Tax Reform in 2008 lowered rates from 40% down to 29%, putting them more in line with other European countries. South Korea's tax rate is 27%; China's is approximately 25%; and Ireland's is a mere 12%. How can we compete with a tax rate two or three times as much as the other guy? It is time for tax reformation in the U.S.A.

Fifth, labor. When it comes to labor, our leaders must remember that the secret ballot is the cornerstone of the democratic process. As leaders—as Americans—we must do everything within our power to defend that right. It must be protected. One person. One vote. Privately!
It is easy to define the issues. The resolutions will be much harder.

These resolutions have profound implications for the future of the Detroit auto industry and the State of Michigan. In May 2004 at a Detroit Economic Club meeting, I provided the caution that "Detroit is in the Crosshairs." Too many leaders in this town did not get the memo or chose to ignore the message. I have been communicating the harsh and real structural changes that are needed for our industry for the past several decades, but I am not so sure how many people wanted to hear about it. The fact remains: Detroit is not globally competitive.

America has great products with nameplates from GM, Chrysler and Ford. They are as good as they get. But the cost is bloated. GM and Ford have reported losses of over $110 billion ($111.4 B) since 2005! It all relates back to a structural cost problem. Economic reality has encircled Detroit.

Structural cost reductions are the key to becoming globally competitive.

So what can we do? We must develop a vision and business plan for the future of manufacturing for America that will:

> First build upon the short-term financial assistance that GM, Chrysler Group, LLC and affiliates are receiving from the Federal Government, realizing that the TARP funds are not going to last forever. Our industry's future is tightly coupled to consumer confidence, and progressively more, with the federal government. None of us can control the difficult business conditions of the marketplace. But each of us can control the decisions we make and the actions we take.
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> Second, companies must recognize and face the hand that they have been dealt. Old and obsolete business models must be thrown out. A total transformation is required. The global economic crisis

has fundamentally changed the way we do business in America on our watch. Companies that go through painful and expensive downsizings, restructurings, and re-financings must develop stringent self-help programs in order to control their own destinies, eliminate uncertainty and get them on the path to a viable, profitable and sustainable future. The most successful companies will have “selfhelp” programs that position them for the economic recovery.

And third, eliminate the entitlement mentality that is so pervasive in today’s American culture.

America must become competitive again.

I have always taken a professional pride in making and creating things. So personally, I want to see American manufacturing get back on track as quickly as possible. In countries like China, Japan, South Korea and Germany, manufacturing is revered. **It is time for America to re-establish manufacturing as a first-string priority.** Manufacturing is essential for the vitality and economic future of the U.S.A. It is our ticket to compete globally. It is how we generate wealth, value, and provide jobs for society.

I believe with every fiber of my being that we have the talent and commitment to resuscitate America’s manufacturing lifeline and rise above this economic turmoil. We can work our way through this troubled time. And together, we can bring about real, positive and effective change for manufacturing’s productivity, competitiveness, profitability and job creation. Let’s get the job done!