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Testimony before the U.S.-China Economic and Security Review Commission
The Challenge of China's Green Technology Policy and Ohio's Response

Good afternoon members of the U.S.-China Economic and Security Review Commission. My name is Greg Noethlich, and I am the Chief Operating Officer for Elyria/Hodge Foundries. On behalf of the foundries and other manufacturing companies in Ohio, it is an honor to be here today.

Elyria/Hodge Foundries has been in business for more than 105 years and is a vital part of the Northeastern Ohio and Western Pennsylvania's economy. We are head quarter in Elyria, Ohio and operate two facilities, one in Elyria and one in Greenville, PA which is in the North Western corner of Pennsylvania.

Elyria Foundry is a leading producer of medium- and large-sized complex gray and ductile iron castings. Elyria Foundry's castings are primarily used in energy market applications such as natural gas compression equipment and coal pulverizes for electric power generation. Recent expansion in the renewable energy market with wind turbines has provided us with additional growth opportunities. Other applications include refrigeration and air conditioning, mining, agriculture and transportation, air compressors and power transmission equipment. We employ over 400 workers and despite this tough economy, we continue to invest in our business and remain competitive in the global market place.

The foundry industry, regarded as being the world's second oldest industry, forms the basic foundation of an industrial society. Its products are used in a high percentage of all manufactured goods. And perhaps more so than other industries, over the past couple of years, the iron and steel industries have been particularly hard hit due to drop in demand for everything from automobiles to household appliances. Hundreds of foundries continue to go out of business due to unrelenting pressure from cheap imports, the departure of large manufacturers and skyrocketing costs of raw materials. "This industry is in deep trouble," said Charles Kurtti, president of the American Foundry Society in 2004 and it is still true today.[1]

Foundry industry leaders are trying to figure out how China is able to sell products to U.S.-based manufacturing companies at two-thirds their price, given that they are not as efficient and have to pay the same amount for raw materials. "After the Chinese buy the $400-a-ton-scrap, they put it on a boat that costs $50-plus a ton, take it to China, take it off the boat, put it on rail or truck, pay another $10 to $20 a ton to get it to the foundry, melt it into the form of a casting, take it back to the dock, put it in a container at $150 a ton, ship it to Long Beach, get it off the dock, put it on rail, send it through Customs to a warehouse and then deliver the

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castings to our customers," says Tim Brown, vice president of the Benton Foundry in Pennsylvania.[1] And within the industry, there appears to be a growing consensus that to stay competitive and achieve growth, the playing field has to change. Surely domestic consumption no longer can be counted on as the solely reliable source for sustainable long-term growth.

As part of the global competition, it's getting harder for foreign companies (and foundries) to do business and compete with China. Jeff Immelt, CEO of GE, recently told Italian business leaders, "I really worry about China... I am not sure that, in the end, they want any of us to win, or any of us to be successful." As GE's business plays a significant role in the global Green industry, Immelt went on to say, "GE's high hopes for its wind-turbine business, for instance, have run into fierce competition from Chinese rivals..."[2]

Elyria/Hodge is also very excited about the wind industry as a vehicle for growth. There is an average of over 25-30 tons of ductile iron on one wind turbine. As part of emerging into this market, we aren't looking for hand-outs or special treatment from the government, just a level playing field. In the past, program 48C, and most recently, the SEAM act provides the ability for manufacturing to be competitive and provide a means to fuel future for growth. In the past, Elyria/Hodge has applied for assistance under 48C, but with the lack of funding, was unable to receive the support. Our funding was targeted toward facility expansion, modernization and retooling our operations to remain competitive with offshore competitors. It certainly does not rule out the possibility of building a new green field sight dedicated to wind, if enough funds were made available. Grant money could be used to fund large capital expenditures items to support our growth in wind such as flask tooling, and buildings with higher crane capacity to support next generation wind castings especially as the parts get larger and heavier to support off-shore. It is also important for us to ship the OEM turbine producers via rail versus truck. Neither of our facilities have a rail siding and funding from 48C could be used to add rail shipping.

China is going to install more turbines in the next 5 years than any other country. And, until 2010, China required 80% of the component be produced in China. This will go away, but the internal buying practices we still be a disadvantage. If they have 80% of the State Owned Enterprises' (SOE's) that only buy from Chinese based companies, we are going to be locked out of doing business, just as Immelt referenced. The companies building wind farms continue to announce they are buying from internal Chinese companies. As you also know, there are customs and import duties for US manufactures to ship into China. These can be as high a 10%-50% increase on our selling price. This increased cost severally limits the United States Company's ability to supply into China. Conversely, the Chinese SOE's have a significant cost advantage supply into the US, as the law of the land in China is much less stringent than those in the US. Specifically, the SOE's have different standards on environmental regulations, have reduced rates on electrical costs, don't have to run for a profit and maintain a lower wage rate.

Elyria/Hodge Foundries want to continue to strive and thrive for the next 100 years, but as the global competitive market changes, and as a company, we change; our government can assist in that change. Support on access to capital, improving negotiations with the Chinese government to reduce import taxes, and conversely adding similar import tax can all level the playing field of our competitive landscape.

Thank you for your attention this afternoon.

Regards,
Greg Noethlich

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[1] Richard McCormack, "Manufacturing & Technology News," *Economic Recovery Bypasses U.S. Foundry Industry: Foundry Industry Is In A State Of Shock*, November 4, 2004 Volume 11, No. 20.

[2] Andrew Browne, "Immelt on China: They Won't Let Us Win," *Wall Street Journal*, July 2, 2010.

[3] Paul Glader and Shai Oster, "GE's Road In China is Getting Bumpier," *Wall Street Journal*, July 8, 2010.

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