

American Gear Industry Faces Major Challenges

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Five years of effort by AGMA came to fruition in January with the publishing of a report from the Department of Commerce. This "National Security Assessment of the U.S. Gear Industry" indicates that if serious measures are not taken, the gear industry's future is in jeopardy. It also sets the tone for confronting major challenges now looming large in our industry.

The report states: "The continued viability of the domestic gear industry is critical to U.S. national security and economic competitiveness," and that the outlook for the 1990s is dim. Today the gear industry is not capable of meeting potential gear production demands in a national emergency. The situation is most acute in the aerospace and marine gear sectors.

The Report

Analyzing profitability, R&D, capital investment, and surge and mobilization capacity of the gear industry, the report portrays a significant decline during the last decade. It also points to major infrastructural problems that can only be addressed by broad reforms. Gear industry facts cited include:

- Employment has shrunk since 1980. By 1987, the total number of employees had fallen by 37%, with production workers down nearly 40%.
- Pre-tax profitability fell each year from 1984 to 1988 and was very unevenly distributed, reflecting the diversified nature of the industry.
- The largest U.S. gear producers (500+ employees) were disproportionately

damaged by the industry's decline in the 1980s. They will continue to be hardest hit in the 1990s due to increasing pressure from importers.

- Sales declined during the 1980s as most gear end-markets experienced their worst contraction since World War II.
- Alternative technologies have further eroded market opportunities for the U.S. gear industry.

- The outlook for the 1990s is for continued decline in end-market industries (farm, construction, and oil field equipment). This translates into decline in the gear industry as well.

Commercial Sector Implications

The DOC report establishes a clear link between the defense and commercial sectors of the gear industry. Production of gears for defense purposes cannot survive without a viable commercial industry. Besides being vital to the performance and construction of nearly all weapon systems, gears are also basic components for transportation and industrial machinery. Many AGMA companies make industrial gears that they consider "non-defense." On closer scrutiny, these companies may discover that the gears they manufacture actually go to OEMs that perform work for government contracts. This commercial base is critical to maintain manufacturing technology, a skilled labor pool, and capacity that can be converted to defense use if necessary.

Insufficient gear industry capacity in any sector means the industry would be unable to meet potential gear production demands in a national security emer-

gency. As it stands now, the defense-intensive aerospace and marine gear sectors are already unable to reach emergency surge and mobilization production targets.

DOC officials predict that over a third of our industry's companies as they exist today will disappear within

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the next ten years. Severe international competition threatens our industry leaders. Citing the underlying causes as erosion of our markets, older equipment, and under-investment in capital and research, the report states that international competition has been a major factor in the decline of the industry. Gear imports during 1988 were \$435 million. In 1990 they were over \$500 million, an increase of more than 19%.

Government Assistance?

As an initial step toward meeting this crisis, the report recommends direct government assistance in rebuilding the gear industrial base. The proposals represent a significant change in attitude and are an important first step.

The DOC report recommends increased availability of low-interest loans and use of the Department of Defense's (DOD) Industrial Modernization Incentive Program to assist in plant modernization. The Bureau of Export Administration (BXA) proposes that Census, Trade Administration, and AGMA officials meet to begin to solve current deficiencies in trade statistics to improve government monitoring of trade problems. Additionally, BXA will as

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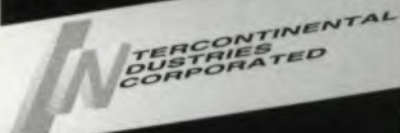


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sist by spearheading a meeting with Technology Administration officials to create shared flexible manufacturing centers and R&D consortiums, allowing collaboration between gear producers and/or their suppliers. More assistance in the development of technology and modernization of manufacturing processes from the National Institute of Standards and Technology is also urged. The report further recommends expanding the scope of its INFAC program to include all gear sectors and urges broader DOD participation.

The report suggests that DOD and DOC begin monitoring the troubled firms in the gear industry. If one or more should fail, the report suggests that capabilities of other U.S. firms should be developed to meet defense-critical needs. Finally, DOC encourages

our industry to consolidate into larger, more technologically efficient firms to obtain better access to capital for investment in the latest technologies. This all sounds good, but what's the catch? These are just "recommendations," not "directives" that would guarantee program funding. AGMA and you must ensure that proposed solutions are implemented.

Moving Ahead!

How do we move ahead? As a first step, AGMA's Board of Directors has decided to file a 232 Petition. A 232 action investigates the effect of imports on national security. Under the provisions of the Omnibus Trade and Competitiveness Act of 1988, the President must determine which actions are necessary to adjust imports that threaten to impair national security. These could include restrictions on federal procurement practices (e.g., "Buy America" provisions); funding for manpower training programs; assistance in plant modernization; federal funding of industry research; and the collection of better trade statistics. The President could also restrict imports by establishing quotas, imposing tariffs, or negotiating a voluntary restraint agreement.

Our international trading partners fully understand the significance of a 232 Petition. In the midst of the Iraq War, a delegation of European gear manufacturers traveled to Washington in February to discuss trade issues with the AGMA Board of Directors. In their words, they were trying to "... avert a trade war." European representatives are threatening retaliation even before the 232 filing has occurred!

AGMA and its members fully recognize that successful international trade competition requires a level playing field. Currently, unreciprocal trade relationships and disparate manufacturing environments stifle U.S. gear manufacturers' ability to thrive, rebuild, or modernize. The 232 may provide some "breath-

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ing room" to achieve this goal. If we cannot make headway voluntarily, then AGMA may have no recourse but to push for sanctions against unfair trading practitioners. A key avenue of redress is the 232 Petition.

This report goes a long way toward focusing public attention on the gear industry. However, for the government to act decisively, the active support of the entire gear industry will be required. Equally important is gaining the support of our political leaders at both the state and federal levels. To marshal our forces, AGMA will distribute a survey, "Do You Know Your Elected Officials?" By effectively using the personal ties AGMA members have with these elected officials, AGMA will act! We need AGMA member CEOs to lead this effort! With your help, the American gear industry will once again resume its strong position in both the domestic and global markets.

For a copy of the Report *National Security Assessment of the U.S. Gear Industry*, contact the Office of Industrial Resource Administration, United States Department of Commerce, 202/377-3984.