

**TOOLING INDUSTRY WHITE PAPER**  
**U.S. Government Trade-Related Programs That Address Industry Challenges**  
**March 2003**

**EXECUTIVE SUMMARY**

The U.S. special tool, die, and industrial mold industry is facing a number of challenges that have led to declining revenues in an increasingly global market for tooling products. The Administration is prepared to assist tooling producers with strategies to increase domestic and export market share through a variety of programs and to address foreign trade practices through bilateral consultation, trade remedy counseling, and by giving the U.S. tooling industry a seat at the table during trade policy formulation. Tooling companies are encouraged to work with the U.S. Government to determine ways in which to improve their international competitiveness and ensure their prosperity. This paper details the numerous government programs that assist U.S. companies in achieving these goals.

**INDUSTRY OVERVIEW**

The U.S. tool, die, and industrial mold industry is comprised of approximately 7,000 small- and medium-sized businesses that manufacture highly customized tools, dies, and molds for use with machine tools and other types of production machinery. This tooling is used in the manufacturing processes of virtually all mass produced goods.

In 2000, the value of the industry's shipments exceeded \$14 billion. Contributing to this number was the \$1.1 billion worth of tooling products exported in 2001, primarily shipped to Canada (\$372 million) and Mexico (\$298 million). Other major export markets included Germany, United Kingdom, Hong Kong, China, Ireland, Japan, France, and Singapore. These exports are roughly comparable to the U.S. consumption of foreign tooling in 2001, totaling \$1.7 billion. The majority of these products originated in Canada (\$697 million) and Japan (\$549 million), followed by Germany, Taiwan, Italy, Portugal, the United Kingdom, China, France and Korea.

The industry has recently experienced sharp declines in shipments (down 20% from 2000-2001 with an equal decline estimated for 2001-2002), a drop in employment (down 14% from 2000-2002), and serious production overcapacity (estimated at 30%-40%). These adverse conditions have resulted in downsizing at many firms and the exiting of many other firms from the industry. Approximately 200 tooling shops have closed their doors in the past three years, and some industry sources estimate that 50% of the current number will exit the industry over the next five years. While economic downturns caused by business cycles are common to the industry, these latest trends are largely perceived as a permanent restructuring.

Following the conclusion of a Section 332 Investigation into the competitive conditions facing U.S. tooling companies (published in October 2002), the U.S. International Trade Commission (ITC) has determined that the industry is faced with the following six major challenges:

- (1) the recent downturn in the U.S. economy and its slow recovery;
- (2) a shrinking domestic market due to the migration of manufacturing customers to foreign locations;
- (3) excess capacity due to reduced domestic market demand and introduction of new technologies;
- (4) customer demand for lower prices and more services;
- (5) increasing foreign competition;
- (6) rising costs, particularly labor-related costs.

This report describes the trade-related programs currently administered by the U.S. Government that address the aforementioned challenges. These programs include:

- **Export Promotion Programs** that help tooling firms pursue foreign sales to compensate for loss of domestic demand for their products. (Addressing challenges #1, 2, and 3)
- **Company Restructuring Assistance Programs** that will help tooling shops restructure their businesses and introduce industry best practices to lower their costs and make their shops as internationally competitive as possible (Addressing challenges 4, 5, and 6)
- **Export Financing Programs** that will help ensure tooling firms have access to the capital necessary to make foreign sales (Addressing challenge 5)
- **Trade Policy Input Programs** that will give the tooling industry voice in the formulation of trade policy (Addressing all challenges)

## **EXPORT DEVELOPMENT PROGRAMS**

Traditionally, U.S. tooling firms have relied on the huge domestic market for almost all their sales (65% of U.S. tooling shops primarily serve customers within 150 miles of their facilities). As the tooling industry and their customers become increasingly globalized, it becomes critical that these firms become international players and pursue export opportunities. Several of the industry's challenges (particularly #1, 2, and 3 above) could be addressed by the active pursuit of export sales. Many of these largely new-to-export tooling firms could benefit from a number of U.S. Government programs that encourage and assist U.S. small businesses to export their products to foreign markets. Trade Development, led by an Assistant Secretary, has five Deputy Assistant Secretaries each of whom has a growing grouping of industry sectors. The tool, die, and industrial mold sector is serviced by the Office of Machinery under the Deputy Assistant Secretary for Transportation and Machinery.

The International Trade Administration's (ITA's) Trade Development (TD) unit is on the front line working to enhance America's international competitiveness. TD has a strategic view of the global marketplace, a unique understanding of the complexities of conducting international business, and a detailed knowledge of the needs, interests and concerns of U.S. industry. U.S. firms and industry organizations use this expertise to develop export marketing initiatives and to identify and overcome foreign market access impediments.

### Establishment of a U.S. Tooling Export Initiative

One of TD's top priorities is to establish new partnerships with public and private entities to achieve mutual exporting objectives. TD signs memoranda of understanding to cooperate on projects and export marketing activities. TD would be most interested in consummating a formal public-private partnership with the National Tooling and Machining Association or other tooling trade associations to develop and promote the exportation of U.S. tooling. The memorandum of understanding might include many of the programs and activities described below.

### Export Information Development and Dissemination

TD offers an array of services to help small businesses increase their export potential. The Office of Machinery (OM) is the contact point that can provide tooling companies with detailed information and analysis on foreign market conditions and opportunities, industry forecasts, trade data and information, advocacy assistance and other types of general exporting advice.

TD works closely with U.S. Export Assistance Centers (USEACs) throughout the United States and Foreign Commercial Service (FCS) posts around the world to collect and compile this market information. We encourage U.S. tooling companies to avail themselves of the excellent resources ITA possesses to help firms to identify foreign market opportunities. (Contact the Office of Machinery at (202) 482-0314, (800) USA-TRADE, or [www.ita.doc.gov/td/machinery](http://www.ita.doc.gov/td/machinery))

### Export Seminars

TD would welcome the opportunity to work with the tooling industry to develop a series of export seminars to help tool, die, and mold shops that are unfamiliar with exporting. TD also proposes establishing export information booths at tooling trade shows and providing industry specialists to speak with tooling firms at industry meetings and conventions. These initiatives would provide an efficient method of providing ITA's export information to a large number of tooling shops.

### Trade Promotion Activities

TD coordinates with USEACs and FCS posts to arrange a number of export promotion activities that help U.S. firms locate foreign buyers for their products. These activities include disseminating trade leads, locating foreign customers/distributors/partners, arranging various trade events and trade missions, promoting and recruiting prospective foreign buyers to attend trade shows, and arranging U.S. pavilions/catalog booths at foreign trades shows. Numerous U.S. tooling shops have used these programs to achieve export successes.

- *Locating Customers and Distributors*

Increased usage of the FCS Gold Key Service could prove to be extremely beneficial to U.S. tooling shops in locating foreign customers or, as suggested in the ITC report, in locating strategic partners, vendors or foreign companies with which to form global sourcing and production alliances. For example, in early 2003, shortly after participating in the Gold Key Program that coordinated the efforts of the FCS posts in Mexico, the

Rockford, Illinois USEAC, OM/TD, and several other government agencies, a Rockford, IL-area tooling shop received an order from a Mexican manufacturer worth \$70,000.

- *Overseas Exhibitions*

Increased presence at overseas trade shows could assist U.S. tooling shops in finding additional foreign customers. TD and FCS posts in Mexico have recruited tool and die companies to participate in several upcoming foreign trade shows such as USA/Mex International Industrial Expo (scheduled for June 4, 2003 in Monterrey); Metal Mecanica (Monterrey, October 1-3, 2003); and Expomanufactura (Monterrey, on March 25, 2004).

For firms only able to make a smaller investment, FCS Monterrey will support their participation through a Product Literature Center (catalog show) to be held in conjunction with Expomanufactura. While Mexico has been identified as a potential market for U.S. tooling by the ITC 332 Investigation (due to its small indigenous tooling industry and its geographic proximity to the United States), similar events are held in a number of other regions, and OM can be of assistance in helping to determine which events will be most productive for companies in the tooling industry.

- *International Buyers Program and Domestic Trade Shows*

Foreign sales could also result from efforts by FCS posts and TD to recruit foreign end-users to visit domestic tooling trade shows and contract tooling fairs. The International Buyers Program (IBP) recruits potential foreign customers to attend selected domestic shows. IBP staff and OM offer their services to help organizers of tooling shows to prepare their application for participation in the IBP. OM would also be willing to organize a similar program to serve smaller contract tooling fairs and other small, regional domestic trade shows. These programs organize meetings, provide matchmaking services, and offer export counseling to help generate export sales.

- *Trade Missions and Reverse Trade Missions*

Every year, ITA supports dozens of trade missions that allow firms to meet face-to-face with pre-screened business prospects in promising export markets. These missions are arranged to include comprehensive country briefings, logistical support, and follow-up counseling to participating companies.

FCS posts in Mexico are organizing a Manufacturing Mission that will introduce U.S. companies to prospective customers in Mexico City, Monterrey, and Guadalajara. This mission is scheduled for June 2003 and will include U.S. tooling firms. Reverse trade missions can also be arranged to allow prospective foreign customers visit with U.S. tooling shops.

- *The Advocacy Program*

The Commerce Department established the Advocacy Center in 1993 to promote U.S. exports and to help create and retain U.S. jobs. Working through the multi-agency Advocacy Network and appropriate embassies, the Center coordinates high-level U.S. government support to companies competing for international opportunities that typically involve foreign governments or government-owned corporations. This program could be used to increase opportunities for U.S. tooling companies abroad by promoting the inclusion of U.S. suppliers in foreign government procurement contracts.

### Market Development Cooperator Program

The Market Development Cooperator Program (MDCP) is a competitive matching grants program that builds public/private partnerships by providing federal assistance to non-profit export multipliers such as states, trade associations, chambers of commerce, world trade centers and other non-profit industry groups that are particularly effective in reaching small- and medium-size enterprises. MDCP awards help to underwrite the start up costs of export marketing ventures which these groups are often reluctant to undertake without Federal Government support. MDCP funds could be used for large-scale projects like technical centers placed in foreign markets of interest or to fund smaller programs like specialized, in-depth market research into the demand for U.S. tooling in various foreign markets. OM works closely with prospective grantees to counsel and help them develop competitive proposals. (For a list of past and present MDCP grantees and projects, consult [www.ita.doc.gov/td/mdcp/active.html](http://www.ita.doc.gov/td/mdcp/active.html))

### COMPANY RESTRUCTURING ASSISTANCE PROGRAMS

Tooling companies and the ITC investigation have cited increased competition in price and services as among the major challenges facing the industry (#4, 5, and 6 in introduction). Tool, die, and mold shops are under extreme pressure from their customers to offer increasingly lower prices and additional services. This pressure is compounded by increased competition from inexpensive foreign tooling and the rising costs of doing business (particularly those related to labor). All of these factors make it imperative for tooling companies to restructure their businesses. There exist a number of government programs that help fund corporate initiatives to restructure their operations so as to implement the *best business practices* identified by the industry and the ITC investigation.

#### Best Business Practices

- *Trade Adjustment Assistance*

The U.S. Department of Commerce's Economic Development Administration (EDA) administers the Trade Adjustment Assistance Program (TAA) that assists domestic manufacturers injured by increased imports. The TAA helps companies prepare and implement strategies to guide their economic recovery.

This program offers to share the costs associated with hiring consultants and restructuring businesses operations, so as to incorporate the following *best business practices*:

- decreasing lead times;
- offering additional customer service and flexibility with respect to engineering changes requested by customer;
- increased specialization in niche markets;
- improved project management;
- establishment of foreign production capability or partnerships/joint ventures with foreign companies;
- strategic vendor relationships;
- reducing overhead costs;
- developing lean/advanced manufacturing techniques;
- diversification of products & services;
- development of proprietary products or processes;
- improved worker training & education.

Several tool and die shops are currently active in the TAA program. Moreover, many have passed into the implementation phase. For example, a Detroit-area mold maker that serves the automotive industry recently completed a sales training and marketing project which has allowed the company to enter new markets. The company recently secured several new accounts and is now pursuing the next phase of its restructuring: QS quality certification. Another firm, a die builder, has begun an ISO certification project.

Funds could also possibly be used to develop marketing strategies that target foreign companies with manufacturing facilities in the U.S., particularly foreign automotive transplants. These companies rarely contract U.S. companies for their tooling needs, but would provide an excellent source of business for tooling shops capable of entering their supply chains.

- *Bureau of Apprenticeship and Training (BAT) Registered Apprenticeship System*

Training as a toolmaker is typically a long process in which a tooling shop invests a substantial amount of time and money in the trainee's development. As noted in the ITC report, total training costs for employees increased by 13% between 1999 and 2001. The U.S. Department of Labor's BAT provides technical assistance to an apprenticeship sponsor to design and implement effective apprenticeship programs. This type of assistance helps the sponsor to avoid wasting valuable resources on inefficient training programs. This assistance includes the identification of training needs and instruction sources; development of apprenticeship standards; on-the-job training outline; curriculum development and classroom instruction; apprenticeship program operating procedures; and a system to record individual progress.

- *Manufacturing Extension Partnership (MEP)*

The U.S. Department of Commerce's National Institute of Standards and Technology (NIST) administers the Manufacturing Extension Partnership (MEP). It is a nationwide network of non-profit centers whose primary goal is to assist small- and medium-sized U.S. manufacturers to improve their operations. Through this program, tooling shops could solicit the expertise of manufacturing and business specialists who would provide assistance in: process improvement, quality and business management systems, materials engineering, plant layout, product development, energy audits, financial planning, CAD/CAM/CAE, electronic commerce/EDI, and other processes related to improving a tooling firm's international competitiveness and applying *best business practices*.

- *Special Research & Development Grants*

A number of U.S. Government agencies, including the National Science Foundation, NIST, and the U.S. Department of Energy offer millions of dollars in research and development grants to tooling shops or to related organizations. Development of new technologies is critical to the improvement of tool-making processes and to the competitiveness of the U.S. tooling industry. Money from such grants could possibly even be secured to help fund the development of a 3-D modeling and rapid prototyping center, like that developed by the Taiwanese tooling industry.

## **EXPORT FINANCING PROGRAMS**

The tooling industry is extremely capital-intensive. There is a constant need for companies to purchase expensive, cutting-edge production equipment to increase productivity, decrease turn-around times, and lower production costs. Additionally, the ITC report has indicated that many tooling firms would greatly benefit from investing in foreign production facilities, also requiring capital. Unfortunately, the financial situation of many tooling firms has worsened over the past several years. The ITC's Section 332 investigation showed a sharp deterioration in the financial situation of tooling shops between 2000 and 2001, including a fall in the industry's ratio of operating income to net sales, decreased cash flow, and a near doubling in the number of companies reporting losses on an operating and net-income-before-tax basis.

Financial institutions have been increasingly hesitant to extend much-needed capital to these companies at a time when they need it most. Access to capital is crucial for these firms to purchase new equipment and to pay for the business restructuring that will make them more internationally competitive and export-oriented.

There are a number of U.S. Government programs that tooling firms in need of financing assistance can access.

### Small Business Development Centers (SBDCs)

SBDCs are the regional offices of the U.S. Small Business Administration (SBA). They provide management and business consulting to small business owners. The SBA offers a variety of loan

guarantee and export financing programs to companies employing less than 500 people. Since 90% of U.S. tooling shops employ fewer than 50 persons, most would qualify for SBA loan programs. Many such programs directly target businesses looking to develop export sales.

- *International Trade Loan*

The International Trade Loan Program (ITL) is a medium- to long-term working capital loan guarantee applied to funds made available by lending institutions. This program targets small businesses that are engaged or preparing to engage in international trade and those that have been adversely affected by competition from imports. The loans must be applied to initiatives that will significantly expand existing export markets, develop new export markets, or upgrade equipment or facilities to improve competitive position.

- *7(a) Loan Guarantee*

The SBA offers this loan guarantee to small businesses that are unable to secure financing on reasonable terms through normal lending channels. The loan proceeds can be used for expanding or renovating facilities, purchasing machinery and equipment, financing receivables, augmenting working capital, refinancing existing debt, or the purchasing of land or buildings.

- *CAPLines Loan*

This SBA program's primary purpose is to offer loan guarantees for short-term, working capital needs. Loans can be used as advances against anticipated inventory and accounts receivable, to fund direct labor and equipment/materials costs to perform contracts, or to purchase inventory.

- *Export Working Capital Program (EWCP)*

SBA designed this program to provide loan guarantees on short-term working capital to small business exporters. The funds can be used to finance pre- and post-export financing needs for a single export order for multiple sales. The funds can be used to acquire inventory; pay manufacturing costs of goods for export; purchase goods for export; pay for costs associated with service contracts with foreign buyers; support standby letters of credit used for bid and performance bonds; or to finance foreign accounts receivable.

## U.S. Export-Import Bank

- *Working Capital Guarantee Program*

The Export-Import Bank of the United States (Ex-Im Bank) provides working capital loan guarantees for export-related activities such as purchasing finished products for export; paying for raw materials, labor, and overhead to produce goods for export; to

cover standby letters of credit serving as payment guarantees; or to cover retainages and warranties.

## **TRADE POLICY INPUT PROGRAMS**

As the U.S. tooling industry becomes globalized, tool, die, and mold makers can make an increasingly important contribution in shaping U.S. trade policies. There exist a number of programs through which the tooling industry can participate in the shaping of trade policy.

### Government-Industry Trade Issue Fora *Industry Sector Advisory Committees (ISACs)*

There are 17 ISACs, each devoted to specific industry sectors. The tooling industry is represented on ISAC-2, Capital Goods. Advisors on these committees develop their industry's specific positions on U.S. trade policy and negotiation objectives and provide advice to officials in the Department of Commerce and the Office of the U.S. Trade Representative. The committees address trade agreements; market access problems; tariff levels; discriminatory foreign procurement practices; electronic commerce, marketing, and other advocacy needs of their sector. ISAC members are executives of U.S. manufacturing or service companies involved in international trade or are association executives. OM encourages representatives from tooling companies and/or trade associations to become ISAC-2 members and will work with interested parties to facilitate the application process.

### *Non-Tariff Market Barriers*

Tooling shops may encounter exporting problems caused by foreign government practices and can seek to achieve equal treatment of its products with help from ITA's Market Access and Compliance (MAC) unit. MAC, with its regional and country focus, receives complaints from U.S. companies regarding possible non-tariff barriers to trade and possible foreign non-compliance with international agreements and seeks to find solutions.

In addition, NIST offers an *Export Alert* service that disseminates notices originating in the World Trade Organization that pertain to trade-related drafts or changes to the national technical regulations of its member countries. This service alerts U.S. businesses to regulations that could affect their access to foreign markets.

Further, OM would be willing to explore with industry representatives the possibility of undertaking special studies of non-tariff market barriers in key foreign markets.

### *Commercial Law Development Program (CLDP)*

The CLDP focuses on laws, regulations, and administrative practices affecting foreign investment and trade, export controls, intellectual property rights, and government ethics. The program supports economic and political reforms in developing countries by providing training and consultative services to lawmakers, regulators, judges, lawyers and educators seeking assistance in the evaluation, revision, and implementation of evolving legal systems. Initiatives

typically include placement of expert advisors with host government ministries to provide legal training and conduct skills workshops. The program could be used by the U.S. tooling industry to address a variety of issues, including those pertaining to investment in foreign production facilities and the establishment of strategic relationships with foreign tooling shops. International standards issues could also be addressed to ensure customer expectations are met with minimal readjustments and to avoid regulatory non-tariff trade barriers to foreign markets.

#### *United States - China Joint Commission on Commerce and Trade (JCCT)*

The JCCT could be used by the tooling industry to address issues that impede their performance in the Chinese market. China holds huge sales potential for U.S. capital goods producers, including tooling shops. The Department of Commerce's Trade Development unit administers a number of industry-specific JCCT working groups that include participation from Chinese government and industry leaders. Established units, such as the Aerospace Working Group or the Automotive Working Group could inject tooling issues into their agendas. Additionally, a Capital Goods Working Group could conceivably be developed to substantially increase contact with the Chinese government and industry. These types of bilateral trade fora could be replicated with other foreign countries as well.

#### Trade Remedies

##### *ITA's Import Administration (IA) unit*

U.S. tooling firms have claimed that they are sometimes competing for contracts with foreign tooling firms that offer similar products at prices lower than the cost of the material necessary for production. When a domestic industry is being injured by unfairly priced imports, a company may choose to pursue an antidumping (AD) and/or countervailing duty (CVD) petition. Dumping occurs when a foreign producer sells a product in the United States at a price that is below that producer's sales price in the country of origin, or at a price that is lower than their cost of production. A countervailable subsidy occurs when foreign governments unfairly subsidize their industries to benefit the production, manufacture or exportation of goods.

In order for an AD and/or CVD investigation to be initiated, a U.S. industry must formally file a petition(s) with both the ITC and the Department of Commerce (DOC). If the petition meets the statutory requirements for the initiation of an investigation, DOC will examine whether or not dumping and/or unfair government subsidies are occurring and the ITC will look at the question of injury to the U.S. industry as a result of the dumping / unfair subsidies. An AD/CVD investigation can result in the assessment of duties against imports of the subject merchandise. The IA Office of Policy has a petition counseling unit that helps industries with their AD and/or CVD petition concerns.

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