The National Alliance of Business, a Washington institution with 5,000 business members, has closed its doors for good. The alliance, created in 1968 by President Johnson and Henry Ford II to encourage job development and training in industry, gradually lost its Department of Labor grant money during the 1990s and ended up relying on contracts and business contributions to support an agenda that eventually concentrated mostly on education reform. With the passage earlier this year of the No Child Left Behind bill, there was no longer demand for its services.

The organization, which had as many as 160 people on staff at its peak, found that there was not much interest in workforce development issues. When education reform passed, the organization

(Continued on page two)
AMC Chooses Lean... (From page one)

technology, the need to quickly supply warfighters, reduce costs and do more with less.

“From the headquarter’s perspective, we will oversee an effort to get lean thinking into most managerial decisionmaking and have it incorporated as a philosophy as part of how we operate and manage,” says AMC lean project manager Nancy Spurlin. “The army is undergoing a great deal of change, no less change than in 1941 and we have to do whatever we can to make ourselves as a business entity more competitive. That is what lean is all about.”

The contract with Anteon, a $750 million-government contractor based in Fairfax, Va., and Simpler based in Ottumwa, Iowa, allows anyone within the command to tap into a pool of lean experts to help develop and implement lean strategies. AMC will institutionalize the concept by having lean management cells established at each subordinate activity to work full time on lean implementation projects. There will be initial orientation programs at all AMC locations to teach the basic lean principles of value stream mapping and rapid improvement events. Metrics are being developed to measure progress command-wide.

AMC headquarters is currently applying lean management techniques to the systems by which it releases materials to soldiers and hires civilians and senior executives. It is also applying lean to its staff action process by which it provides services to the field, “which is why we exist,” says Spurlin. “We will have a sensei come in from the contractor to help us get through all of those processes. Our commanding general is absolutely committed to having this institutionalized.”

The contract is valued at $2 million for fiscal year 2002 and sources say its total worth is up to $20 million over five years.

AMC has developed an implementation plan that has incorporated goals and milestones. “We’re looking for savings that can be realized so that we can get more of our unfunded requirements done that we are not able to fulfill particularly in the depots and arsenals,” Spurlin told Manufacturing News. “We know we’re not going to see real, real changes for three to five years. We know we’re in this for the long haul.”

Spurlin can be reached via e-mail at ns@hqamc.army.mil.

Army Materiel Commands Impacted By The Lean Directive Include:

- U.S. Army Research Laboratory, Adelphi, Md.
- U.S. Army Aviation and Missile Command, Redstone Arsenal, Ala.
  - Redstone Arsenal, Ala.
  - Aeroflightdynamics Directorate, Moffett Field, Calif.
  - Charles Melvin Price Support Center, Granite City, Ill.
  - Corpus Christi Army Depot, Corpus Christi, Texas
  - Letterkenny Army Depot, Chambersburg, Pa.
- U.S. Army Communications-Electronics Command, Fort Monmouth, N.J.
  - Tobyhanna Army Depot, Tobyhanna, Pa.
- U.S. Army Simulation, Training and Instrumentation Command, Orlando, Fla.
  - Target and Threat Simulator Management Offices, Huntsville, Ala.
  - Supporting the Army Transformation, Fort Lewis, Wash.; Fort Campbell, Ky.
  - Supporting the Digitized Army, Fort Hood, Texas
  - Supporting the Combat Training Centers — Fort Irwin, Calif.; Fort Polk, La.; and Hohenfels, Germany
  - OSC operates three arsenals, five depots, 11 ammunition plants and 20 army field support command facilities.
- U.S. Army Soldier And Biological Chemical Command, Aberdeen Proving Ground, Md.
  - U.S. Army Soldier Systems Center, Natick, Mass.
  - Rocky Mountain Arsenal, Colo.
  - TACOM-Rock Island, Rock Island, Ill.
  - Armament, Research, Development and Engineering Center, Dover, N.J.
  - Red River Army Depot, Texarkana, Texas
  - Anniston Army Depot, Anniston, Ala.
  - Defense Generator and Rail Center, Ogden, Utah
- Saudi Arabia — Office of the Program Manager, Saudi Arabian National Guard Mobilization

NAB... (From page one)

did not have the manpower or expertise to shift its focus to higher education issues. The alliance was also unable to find enough industry financing because companies started supporting local workforce initiatives rather than national organizations aimed at broad policy development.

The death of NAB “was not a function of a lack of interest,” says Fred Wentzel, a former NAB executive who is now working with the National Coalition for Advanced Manufacturing. “Once the education reform act was signed, CEOs said, ‘We’ve done what we need to do.’ The NAB board declared victory and went home.”
The White House has announced a new strategy aimed at substantially increasing the number of federal contracts awarded to small businesses. The White House Office of Federal Procurement Policy (OFPP) wants to "unbundle" federal contracts that are being awarded to large companies at a record rate.

"Although contract bundling can serve a useful purpose, the effect of this increase in contract bundling over the past 10 years cannot be underestimated," says OFPP administrator Angela Styles in a letter to President Bush. "Not only are substantially fewer small businesses receiving federal contracts, but the federal government is suffering from a reduced supplier base. American small businesses bring innovation, creativity, competition and lower costs to the federal tables. When these businesses are excluded from federal opportunities through contract bundling, our agencies, small businesses and the taxpayers lose."

The strategic plan unveiled in late October will hold senior federal agency managers accountable for eliminating contract bundling and mitigating the effects of necessary and justified contract bundling," states OFPP, a division of the Office of Management and Budget. Agencies will be required to report to OMB's deputy director for management on how they are addressing the issue. "This approach will provide high-level accountability for contract bundling while maintaining a proper balance with mission critical issues," says the plan. The first agency status reports are due January 31, 2003.

"Some are likely very angry about the initiative," says Bruce Shirk, a government contracts attorney with Powell, Goldstein, Frazer & Murphy LLP in Washington. "Whatever one thinks about the program's merits, administrator Styles is to be congratulated on her courage and perseverance in spearheading this effort."

The action plan requires agencies to provide OFPP with written justification for bundled contracts and to create "alternative acquisition strategies for the proposed bundling of contracts." Agencies also will be required to "facilitate the development of small business teams and joint ventures and identify best practices for maximizing small business opportunities."

The strategy is in response to the huge increase in contract bundling. The number of new awards worth $25,000 or more has declined from 86,243 in 1991 to only 34,261 in 2001, says OFPP. There have been "dramatic declines in the number of small business contractors receiving new contract awards, from a high of 26,506 in 1991 to a low of 11,651 in 2000," says the strategic plan.

Moreover, 31 percent, or $72 billion, of the $235 billion in agency expenditures in 2001 were being awarded under existing contracts, up from $21 billion in 1990.

The strategy is located at http://www.acqnet.gov/Notes/contractbundlingreport.pdf.
percent less than the program received in 2002. “Part of the problem I have with MEP is [its] funding is coming out of a pot with competing priorities,” Marburger told the Washington Productivity Forum. MEP comes at the expense of NIST’s laboratory budget and “it’s more important for NIST to function at a higher level than it is now,” he said. Moreover, funding MEP at its current level of $106 million would siphon funds away from more important science and technology initiatives in information technology, nanotechnology and homeland security, he said.

Early word from those on Capitol Hill who follow the program is that the Office of Management and Budget is going to zero out funding for the program in its fiscal year 2004 budget request, due to be presented in February. “This basically spells death to the MEP program,” says one Capitol Hill aide. “A lot of people are extremely upset about this because when the president doesn’t ask for funding, it makes it hard to stick up for a program. Appropriators get tight lipped when the program isn’t even requested.”

Money “is a difficult issue these days,” Marburger told the gathering sponsored by the National Coalition for Advanced Manufacturing, a group originally created to lobby in part for the centers. The MEP program was created in 1988 as a means to help small- and medium-sized U.S. manufacturers compete against Japanese companies, Marburger said, adding that a sunset provision for the program was removed in 1998.

“There is a role for the services MEP provides,” he said. With many centers receiving state and local government funds and fees for services, they should be able to continue without federal support, so long as there is “appropriate management of the centers,” said Marburger. “But I can’t predict what the future of it will be.”

MEP funding for the current fiscal year also remains in question, according to half a dozen aides on Capitol Hill. Although there is strong support for the program, the Republican sweep in the recent election, “means there is more truth to the gloomy outlook” for MEP, says one aide involved in manufacturing issues. Others point out that the Republican agenda on taxes and substantial increases in military spending and homeland security will add further pressure to abide by Bush’s budget request, despite the program’s popularity. One House aide pointed out that a strong Republican NIST supporter, Connie Morella, in whose district NIST resides in Maryland, lost her election.

The continuing resolution that funds agencies that have not received their FY 2003 appropriation does not provide funds at last year’s funding level, “and three centers will probably start having to lay off staff people starting in January,” said one House aide. Another Senate staffer said that if the program were fully funded in 2003, as is expected, the Bush administration would likely submit a recision with MEP targeted for funding reduction. “Cutting the only program you can identify as being a manufacturing program when we’re losing a lot of small businesses sends a troublesome message to manufacturers in this country,” said one aide. “They know that this is a very popular program and they feel they can cut it and have a savings and then have Congress restore the money is a very dangerous game and puts [MEP] at an even greater competitive disadvantage.”

On the issue of skewed federal R&D toward health sciences at the expense of the physical sciences, Marburger said his staff is working with OMB on developing a strategy to achieve balance, but that such a strategy “is not so easy” to create. This is due to the fact that there is a single agency for health sciences — NIH — while R&D spending on physical sciences is spread throughout the government at the National Science Foundation, Department of Energy, NASA and DOD. This structure adds “complexity” to the budget development and approval process in both the executive and legislative branches, he said. “It’s not a simple issue.” Marburger said his office is getting ready to release a report on the issue (apparently one that was produced by the RAND Corp.) in the near future.

President Bush Says Yes To Enterprise Integration Bill

President Bush on Nov. 5 signed the Enterprise Integration Act (H.R. 2733), which requires the National Institute of Standards and Technology to establish an initiative to advance enterprise integration by standardizing electronic exchange of data among manufacturers, assemblers, suppliers and customers. Currently, there is no money appropriated for the $47 million, four-year program that would be run by NIST’s Manufacturing Engineering Laboratory. It’s unclear right now if there will be a supplemental appropriation for the program for 2003. The bill calls for a $10-million effort in FY 2003, but Congress has not passed a budget for NIST. However, there are indications, say bill sponsors, that the Bush team will include funding for the program in NIST’s FY 2004 budget request to be made in early February 2003.
U.S. Industry Is Asleep To The Threat Of Terror, Says Former CIA Director Woolsey

U.S. industry is not yet aware enough of the dire threat posed by Islamic terrorists, says former CIA director James Woolsey. The United States is in the midst of a new world war and the enemy can easily attack a wide variety of industrial networks and assets with potentially startling and economically debilitating consequences, he told the Washington Productivity Forum on Nov. 13.

Prior to 9/11, the last time there was an enemy attack on the U.S. mainland was in 1814. As a result, the transportation, telecommunications, industrial and energy infrastructures were designed in the most economically efficient manner with little regard for security. They are completely exposed in the same way the airline industry was vulnerable on 9/11.

“All of our networks have specific vulnerabilities like the flimsy cockpit doors” in aircraft prior to 9/11, he told the group of manufacturing executives. The one area that is of utmost concern to Woolsey is the electricity transmission network. Transformers are easy targets and they are no longer manufactured in the United States. Each transformer is custom built for specific conditions and locations by manufacturers that are now located overseas in Korea and Northern Europe. If terrorists attack these transformers, the U.S. electrical grid could be crippled for up to the two years it takes to produce transformers, he said.

Yet there are neither economic incentives nor government regulations in place for utilities to purchase backup transformers. The Federal Energy Regulatory Commission and public utility commissions “have to change the incentive structure” so that utilities invest in such backup systems long before they are attacked, said Woolsey. The energy policy debates should no longer be about energy generation sources, but about keeping the network viable in a coordinated attack.

Another vulnerable area is cargo containers. With just-in-time delivery practices, one container possessing a nefarious agent or weapon would likely close down the entire supply chain of industrial America.

Thousands of containers being unloaded every day at U.S. docks would have to be checked. Putting in place the technology to efficiently inspect every container entering the United States will cost a great deal of money. No single U.S. company will make that investment on its own because it would put it at a competitive disadvantage to those companies that are not convinced the investment is worthwhile.

Trucks carrying hazardous waste should no longer advertise the fact that they are doing so, and “cable crossing” signs should be removed, Woolsey suggested.

The United States should also begin to substantially increase the size of its strategic petroleum reserve since the country uses 25 percent of the world’s oil but accounts for only 3 percent of world oil reserves. It should begin to promote the replacement of oil in industrial processes, since oil purchases from the Middle East are funding terrorist networks. Woolsey says the U.S. needs to learn lessons from Dow Corning’s new polymer plant that uses corn waste as its feedstock rather than petroleum, and ConAgra’s new plant in Missouri that takes waste from a turkey processing plant and produces a usable fuel gas.

Change Of Senate Leadership

The swearing in of the new Congress in January 2003 will mark the first time since 1953 that the Republicans have controlled the Presidency, the Senate and the House of Representatives at the same time. With the change of Senate leadership, immediate alterations in committee leadership occur along with the ability to set agendas, call matters to vote and conduct congressional hearings.

The Senate Commerce Committee, currently chaired by Sen. Fritz Hollings (D-S.C.), will be chaired by Sen. John McCain of Arizona. McCain is a fierce opponent of “pork” projects (except possibly those in Arizona), and he was once the co-chair of the Congressional Advanced Material Caucus, a now defunct organization. The Commerce Committee is responsible for the lion’s share of non-defense technology issues, including those at EPA, NASA, Commerce and some at the Energy Department.

The Senate Armed Services Committee, which has a major impact on R&D spending at the Pentagon, will be headed by Sen. John Warner of Virginia, who is generally supportive of technology issues.

The Senate Energy Committee’s chairmanship will go to Sen. Pete Domenici of New Mexico, who is an avid supporter of renewable energy research and the work at Sandia and Los Alamos research labs located in his home state.

The helm of the Senate Government Affairs Committee will fall under Sen. Susan Collins of Maine, who assumes the ongoing work of Sen. Lieberman and his efforts in setting up a new technology czar at the proposed Department of Homeland Security.

Finally, at the Senate Appropriations Committee, Alaska Sen. Ted Stevens is not expected to make alterations in general support for technology funding. Stevens is regularly chastised by his conservative colleagues because of his reluctance to slash spending on industrial technology research.

— Robert Dale Wilson is head of Wilson & Wilson, Information and Government Relations Services in Washington, D.C., and is publisher of “Material Policy.”
FreedomCAR Sets Goals For 2010

The scope of work for FreedomCAR, the federal government and industry joint venture to develop an automobile that runs on hydrogen, is beginning to take shape. The Department of Energy and United States Council For Automotive Research (USCAR), which consists of representatives from DaimlerChrysler, Ford and General Motors, have agreed on a Partnership Plan for the proposed FreedomCAR initiative.

“FreedomCAR,” in which the CAR stands for Cooperative Automotive Research, has identified specific technology goals for the year 2010 that will be developed primarily through competitively solicited contracts, cooperative agreements, cooperative research and development agreements and research grants. “The partnership intends to fund R&D activities at the national laboratories, traditional and non-traditional automotive suppliers, universities, small businesses and other research institutions,” says the “FreedomCAR Partnership Plan.”

“It is expected that direct funding to automobile companies will be limited. “In general, research projects will be selected competitively, with industry and government jointly developing the technical scope, priorities and project measures.”

The FreedomCAR partnership plans to address the following issues and technologies:

• Fuel cell power systems;
• Storage systems for hydrogen;
• Codes and standards to support the hydrogen infrastructure;
• Electric propulsion systems applicable for both fuel cell and hybrid vehicles;
• Electricity energy storage systems;
• Lightweight structural materials;
• Advanced combustion and emission control systems for internal combustion engines employing a variety of fuels such as diesel, hydrogen and renewable blends and innovative concepts such as homogeneous charge compression ignition systems, variable compression ratio and in-cylinder exhaust gas recirculation; and
• Technical challenges associated with affordability and manufacturability issues.

To view the specific technical goals set for 2010 or to become involved in the initiative, go to www.cartech.doe.gov, send an email to freedomcar@uscar.org or call 202-586-8055.

Treasury Unveils New Rules Regulating ‘Inversions’

Companies will soon be required to notify the Internal Revenue Service and their shareholders when they move their headquarters offshore or when they are acquired by a foreign company. The Treasury Department on November 12 issued proposed regulations to address the controversial practice of so-called “inversions,” in which companies move offshore in order to avoid paying U.S. taxes.

“Under the temporary regulations, corporations that inverted in 2002 will be required to furnish Form 1099s to their shareholders reporting the fair market value of any stock and other consideration received by the shareholders in the transaction,” says the Department of Treasury. Added Treasury assistant secretary for tax policy Pam Olson: “The regulations will serve to remind shareholders in taxable inversion transactions that they must report their gain from the transactions on their tax returns.” For more information on the proposed regulation, go to http://www.treasury.gov/news/press/releases/pr03612.htm.

HUD’s Brownfield Grants

The Department of Housing and Urban Development has awarded $25 million in grants and $99 million in loan guarantees to 23 cities to clean up abandoned industrial sites. Funding provided through HUD’s Brownfields Economic Development Initiative should generate 5,000 jobs and “restore hope to once thriving communities,” says HUD Secretary Mel Martinez. Since 1998, HUD has invested $124 million in grants and $548 million in guaranteed-loans to 99 communities. HUD says the program has leveraged $3.2 billion in other public and private funds. For project summaries, go to http://www.hud.gov/news/releasedocs/bedi/index.cfm.

Manufacturing Workers Take Brunt Of Job Losses

Job losses continue to plague the manufacturing sector. While the unemployment rate was unchanged in October at 5.7 percent, the number of jobs lost in the manufacturing sector dropped by 49,000. “The pace of factory job losses increased in the last three months, averaging 47,000 a month since July, compared with 20,000 a month from April to July,” says the Bureau of Labor Statistics. “Employment in wholesale trade, an industry affected by manufacturing activity, showed a similar, though less pronounced, pattern.”

Manufacturing jobs losses were primarily within the durable goods industries, including electrical and computer equipment, primary metals, fabricated metals and aircraft and parts manufacturing. Employment in the electronics industry has fallen by 44,000 in the past three months, following smaller losses in late spring and early summer. In nondurable goods manufacturing, the apparel industry lost 7,000 jobs in October, following a similar decline in September.

The full report is located at ftp://146.142.4.23/pub/news.release/empsit.txt.
Hydrogen Experts Create A National Hydrogen Roadmap

The United States has its first roadmap on how to transition to a hydrogen-based economy. The "National Hydrogen Energy Roadmap," developed by scientists, engineers, and executives from industry, government, and academia, "is neither a government research and development plan nor an industrial commercialization plan," say the authors. "Rather, it explores a wide range of activities required to realize hydrogen's potential in solving U.S. energy security, diversity, and environmental needs."

The 50-page plan, "is intended to inspire the organizations that invest in hydrogen energy systems, public and private, state and federal, business and interest groups to become involved in a coordinated effort to reduce risk, improve performance, decrease cost and implement and secure a clean and reliable energy future," say the authors.

Work must be conducted simultaneously in seven areas: production, delivery, storage, conversion, applications, education and outreach, and codes and standards.

"Before hydrogen can achieve its promise, stakeholders must work together to overcome an array of technical, economic and institutional challenges," says the Plan for Action.

Government agencies must work closely with a large number of industrial companies in developing new systems, processes, materials and markets. "All individual segments of the hydrogen industry as well as the overall hydrogen energy system must address several cross-cutting challenges," says the plan. "These challenges include insuring safety, building government/industry partnerships for technology demonstration and commercialization, coordinating activities by diverse stakeholders, maintaining a strong research and development program in both fundamental science and technology development and implementing effective public policies," says the plan.

The country will need to generate 40 million tons of hydrogen per year to fuel 100 million fuel cell powered cars and provide electricity to about 25 million homes. Producing this much hydrogen will require a variety of different hydrogen production systems. Using electrolysis, about one million small neighborhood based systems "could fuel some of the hydrogen vehicles and provide some power needs," says the study. With small reformers, 67,000 hydrogen vehicle refueling stations could be built, which is about one-third of the current number of gasoline stations. One hundred nuclear plants and 140 coal/biomass gasification plants would be dedicated solely to making hydrogen. And about 20 small refineries would use oil and natural gas in multi-fuel gasifiers and reformers.

Similar challenges exist in every aspect of a hydrogen-based economic system, including public outreach. Participants recommended a PR campaign that stresses slogans aimed at consumers, students, educators, policymakers, transit agencies, public utility commissions, non-government organizations, the R&D community, industry groups, financial institutions and trade associations. Hydrogen needs to be "branded" and "personalized for the public.

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<th>Scientific and Engineering</th>
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<td>Cost-effective routes of converting H₂ to H₂ do not exist</td>
<td>Codes and standards do not include H₂</td>
<td>Lack of economic strategy from today's fuels to a hydrogen future</td>
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<td>Technical solutions to H₂ piping for self-refueling facilities need further research and development</td>
<td>Lack of harmonization national and international codes</td>
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<td>Proprietary data on materials needed for design are not published</td>
<td>Lack of full social cost-benefit analysis</td>
<td>Current dispensing system designs do not meet customer expectations for cost and convenience</td>
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<td>Lack of a firm understanding of required H₂ purity for fuel cells</td>
<td>Defined value for carbon capture and storage</td>
<td>Access to affordable capital</td>
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<td>Lack of design criteria for multi-gas pipelines</td>
<td>Limitation of energy and greenhouse gases intensive</td>
<td>Current weight and capacity of tube trailers</td>
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<td>Conflicting local vs. national interests is a barrier to community acceptance of H₂</td>
<td>Compressed hydrogen has low energy density</td>
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<td>Environmental concerns with fossil and biomass-based feedstock</td>
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<td>Lack of experience and knowledge for operation and maintenance of H₂ technologies</td>
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(Source: National Hydrogen Energy Roadmap)
Chemical Industry Creates Nanotech Roadmap

The chemical and nanotechnology industries have joined forces with the Department of Energy to develop a technology roadmap for nanotechnology manufacturing. “If we can develop a wide variety of nano-scale building blocks and learn how to effect directed, hierarchical self-assembly, we can launch a second industrial revolution,” says Jim Murday, director of the National Nanotechnology Initiative.

More than 70 chemists, physicists, entrepreneurs and researchers from industry, universities, startups, national labs and more than a dozen federal agencies are engaged in developing the roadmap that will identify top R&D needs in the areas of nanomaterials, nanocomposites, ordered nanostructures, analytical tools, modeling and manufacturing.

At a kick-off workshop in October, participants “expressed their convictions that completely new materials with novel properties can be developed with adequate funding of collaborative, interdisciplinary efforts,” according to Jack Solomon director of technology assessment at Praxair and chairman of the Chemical Industry Vision 2020 Technology Partnership. “Current federal investments of more than $700 million will need to be significantly increased and leveraged to achieve the ambitious technology targets” mapped out by workshop participants.

For information on the initiative, contact Solomon at 203-837-2164.

Hydrogen Plan... (From page seven)

“Safety needs to be stressed. Messages need to be consistent (e.g. ‘Hydrogen is the Freedom Fuel,’ ‘Hydrogen — It Works,’ or ‘Hydrogen is ‘The Power’”).

The National Hydrogen Energy Roadmap is the result of 12 months of study by scientists and engineers and a national workshop held last year that involved 220 experts. The principal authors and their areas of expertise were:

- Mike Davis, Avista Labs, Energy Conversion;
- Gene Nemanich, Chevron Texaco Technology Ventures, Production;
- Joan Ogden, Princeton University, Systems Integration;
- Frank Balog, Ford Motor Co., Applications;
- Art Katsaros, Air Products & Chemicals, Delivery;
- Alan Niedzwiecki, Quantum Technologies, Storage; and
- Jeff Serfass, National Hydrogen Association, Public Education and Outreach.

For a copy of the plan go to www.eren.doe.gov/hydrogen.

Ethanol Projects Receive Fed Funds

The Department of Agriculture has approved funding for 35 projects aimed at boosting the use of ethanol and biodiesel fuels. The agency’s Value-Added Agricultural Product Market Development grants totaling more than $7 million “will bring new opportunities for developing alternative energy sources in our rural communities,” said Agriculture Secretary Ann Veneman. The grants “will enable rural entrepreneurs to develop products and markets to enhance local economic opportunities.” The funding is more than double the amount provided in 2001. To view the grants, go to: http://www.usda.gov/news/releases/2002/10/0458.htm.
**OECD Chronicles Internet Use Worldwide**

The Internet is not yet the revolutionary new business medium predicted a few years ago, according to the Organization for Economic Cooperation and Development. A vast majority of people on the Internet use it only to check e-mail and prices of products, “not to make purchases,” says the OECD in a new study.

“Online transactions account for only 2 percent of total sales in 2002 and the overwhelming majority of these sales are to domestic customers,” says the study entitled “Measuring the Information Economy 2002.”

Businesses are the primary users of the Internet, but they employ the medium for marketing and “much less so for sales,” says OECD. “When they do sell online, 70 percent of the time it is to other businesses and fewer than 10 percent receive payment on-line.”

More than 80 percent of businesses in several OECD countries use the Internet and the most intensive users are generally large firms dealing with finance and insurance, business services and wholesale trade. Most European countries, with the exception of those in northern Europe, are lagging behind the United States in developing applications for the Internet as well as deploying information and communications technologies throughout their corporations, says the OECD in its comprehensive report located at: www.oecd.org/sti/measuring-infoeconomy.

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**Machine Tool Sector Remains In A Slump**

Machine tool consumption increased in September by 45 percent from August to $1.77 billion, but was down 33 percent from the same month last year. “With a year-to-date total of $1.525 billion, 2002 is down 29.4 percent compared to the same period in 2001,” reports the U.S. Machine Tool Consumption report from the Association for Manufacturing Technology and the Machine Tool Distributors Association.

“September’s activity signals a delay in an investment-led recovery in this market,” says AMT President Don Carlson. “America’s industrial base has been severely damaged, yet it is vital to our country’s economic well-being. We must work with our political leadership to put in place the policies to reinvigorate this country’s manufacturers.” To view the report by region, go to http://www.mfgtech.org.

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**QUOTABLE:**

“Total wheat production in the U.S. is down for the fourth year, and off 17 percent from last year’s harvest. (It’s 36 percent lower than in 1998.) This year, for the first time ever, the U.S. will produce fewer bushels of wheat than Russia....Aggravating the shortfall have been sharply weaker harvesting conditions in other parts of the globe. (It was) the fifth year in a row. Canada, the world’s second-largest exporter, saw its production drop 25 percent — its worst crop in 30 years — and sold so far as to announce that it was withdrawing from the international export market. Australian production fell 46 percent. Argentina’s slipped 10 percent....This year has been a wheat grower’s Perfect Storm....The Great and High Plains are in the middle of a drought that in many states rivals the Dust Bowl years of the 1930s,” says USDA agricultural meteorologist Brad Rippey.


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**Online B2B Auction Use Declines**

U.S. companies are not increasing their use of the Internet for purchasing, says the Institute for Supply Management and Forrester Research in their latest “Report on eBusiness.” The latest survey found that 82 percent of companies purchased indirect materials online during the second quarter of the year, down from 84 percent in the previous quarter, while the fraction of companies that made all of their indirect purchases online rose from 8.7 percent to 9 percent. “While the use of the Internet for auctions decreased from 22.4 percent to 18.8 percent since the second quarter, the use of electronic marketplaces and hubs as well as online RFPS surged,” says the survey.

The fraction of large buyers that used procurement tools increased by nearly one-third to 54 percent. “For the first time, more than half of both manufacturers and non-manufacturers reported collaborating with suppliers online, pushing the overall fraction of firms that collaborated with suppliers to 53 percent,” says Forrester.
Recession Was Bad, But Not Too Bad, Says MAPI

The recession that gripped the U.S. manufacturing sector was not very severe, reports the Manufacturers Alliance/MAPI. The 18-month recession that occurred in manufacturing between June 2000 and December 2001 "was only slightly more severe than the average of all postwar recessions," says Jeremy Leonard, an economic consultant to MAPI. "The main reason is that, even though production in manufacturing industries declined a moderate 7.7 percent (the second-smallest of the postwar recessions), the downturn was the longest in postwar history."

Another factor associated with the perception of the recession's severity was the sluggish recovery. "Current consensus forecasts suggest that manufacturing production will take until approximately November 2003—at least 22 to 23 months—to regain the output lost between June 2000 and December 2001," says Leonard. "Furthermore, the recent downturn followed the longest economic expansion in post-World War II history. As a result, even at the trough of the 2000-2001 recession, inflation-adjusted production was 37 percent higher than the previous cyclical peak in July 1990. As a point of comparison, inflation-adjusted production at the March 1991 trough was only 21 percent higher than the July 1981 peak nearly 10 years earlier. While this is hardly consolation for recent economic hardships, it demonstrates that the current downturn pales in comparison to the prosperity that preceded it."

Inventory management helped mitigate the impact of the recession. The inventory-to-shipments ratio has dropped from 1.64 in early 1992 to 1.32 in mid-2002, says Leonard in his study entitled "Putting the Most Recent U.S. Manufacturing Recession in Historical Perspective." "At today's shipment levels, it implies that more than $100 billion worth of inventory has been purged from manufacturing supply chains."

MAPI can be reached at 703-841-9000.

Comparative Measures of Post-World War II Mfg. Recessions

Manufacturing recession is defined as two or more three-month periods which real manufacturing production declined.
b. The Severity Index is a weighted average of (in declining order of importance) total percent decline in production, length in months, months required to regain previous peak and the inverse of months since previous trough. It is scaled such that the average for all post-WWII recessions equals 100.
c. Current consensus forecasts indicate that manufacturing production is likely to surpass its June 2000 peak by Oct. or Nov. 2003, or 22 to 23 months after the trough.