

Ms. Lisa Wojnarowski, Program Manager
Council of Great Lakes Governors
35 East Wacker Drive, Suite 1850
Chicago, IL 60601

7/13/07

Subject: Great Lakes-St. Lawrence River Basin Water Conservation and Efficiency Initiative

Dear Ms. Wojnarowski;

On behalf of members of the Michigan Manufacturers Association, I would like to share the perspective from the industrial community on the Great- Lakes-St. Lawrence River Basin Water Conservation and Efficiency Initiative. We appreciate the opportunity to share the views of the large manufacturing sector in Michigan.

First, let me describe manufacturing in terms of its importance to Michigan's economy. MMA represents about 3,000 members that operate in the full spectrum of manufacturing industries. Our members represent 90% of Michigan's industrial workforce. Michigan is a large manufacturing state making 23% of the automobiles made in America and hosting 50% of the nation's auto supplier base. Even without the automotive industry, Michigan would be the 13th largest manufacturing state. Manufacturing, along with allied industries mining and utilities, is the largest single sector of the economy, creating 21% of the gross state product (GSP), or \$76.3 billion. This contribution is nearly double the contribution of the next largest sector, real estate, with \$42.9 billion in GSP. Manufacturing wages are about 25% higher on average than any other sector. In addition, manufacturing has the highest economic multiplier effect compared to other sectors, with manufacturing creating an average of 3 indirect jobs for every 1 manufacturing job created. The auto industry can be as high as 7 indirect jobs created. That is why manufacturing is so important to Michigan.

A word about global competition - It is important to recognize that the manufacturing sector competes in the global economy in ways that other business sectors do not. We don't compete with companies down the street; we compete on the basis of price with the lowest cost location anywhere in the world. If we don't win on price, we lose market share. The ultimate consequence can be redirected capitol investment and job loss.

Michigan has lost about 400,000 since 2000. We have the second highest unemployment rate in the nation, sandwiched between Louisiana and Mississippi, both of which were hit by hurricane Katrina. Increasing costs on manufacturers is not a step in the right direction.

I am describing the economic situation in fairly elaborate detail to highlight the relative importance of externally imposed costs structures on our economy and the significant economic consequences that are occurring in Michigan and can be exacerbated without careful attention to the cost of production.

In addition it is important to recognize that the consequences of any decision based on the boundaries of the Great Lakes Basin fall disproportionately heavily on Michigan. Michigan is the only state in the basin that falls wholly within the basin, while no other state in the basin has more than 40% of its land mass in the basin. In fact, Indiana has only 9.7%, Minnesota has only 7.4%, Pennsylvania has only 1.3%, and Illinois has the least amount of landmass in the basin at only 1/10 of 1%. Whatever cost consequences are imposed by conservation measures the other Great Lakes states are generally immune to them. Yet the full cost consequences will fall on Michigan. We are very conscious of the potential competitive disadvantage for Michigan created by this dynamic relative to the other states in the Great Lakes basin. The competitive dynamic affects the other Great Lakes relative to states and countries outside the basin.

Having provided the economic context for Michigan let me be clear that we continue to be interested in discussing water conservation. We believe the draft is generally going in the right direction. The following reflects our views on the appropriate direction for water conservation in the basin:

- First, we recognize that the water conservation mechanism in the context of the Annex serve an important role in ensuring legal control in the basin and guarding against water diversions to locations outside the basin.
- Second, there are economic advantages to reducing water use. By reducing the costs associated with water use including energy, infrastructure and treatment, we can reduce the cost of production to compete more effectively with lower cost locations around the world.
- Third, the more information that is shared, the more effective voluntary conservation efforts will be. Education about techniques and technology will help business evaluate ways to reduce costs.
- Fourth, we must encourage economic incentives for the implementation of water conservation equipment and technology. In the face of global pressures driving prices lower, it is generally a rational business decision to avoid short term infrastructure cost that will yield long term benefits. If costs are too high in the short term, the business may not exist in the future. To overcome this economic barrier, the program must include economic incentives that address the cost of infrastructure and technology that would achieve water conservation for the long term.
- Fifth, we must avoid top down regulatory mandates that increase the cost of production. Mandatory standards increase cost and eliminate the economic incentive for manufacturing investment and as a result, effectively eliminate the region's natural economic advantage provided by the abundant water resources. Other locations outside the basin have access to water. We must not price the basin out of the market for manufacturing capital investment.
- Sixth, we promote voluntary mechanisms that can be implemented in the absence of a regulatory scheme. Voluntary mechanisms enable companies to meet conservation goals, while allowing them the flexibility to adapt economically. Goals can be achieved without top down regulatory mandates.

Suggestion: Promote Cost Savings

On first reading of the goals and objectives I was struck by the lack of attention to economic issues. In fact, nowhere in the lists do the terms economics or costs even appear. It seems to me that one of the main reasons for pursuing conservation measures is to ensure a sustainable source of water for the region's economy. After all, fresh water may be our greatest natural economic advantage relative to the rest of the nation. Yet, the document does not reflect this important reality. We would suggest that in the education portion of the objectives that the goals include the statement: "Promote the cost saving aspect of water conservation for both short term and long term economic sustainability for the manufacturing sector in the basin."

In conclusion, let me thank you for the opportunity to share our views. The draft is generally going in the right direction. We must guard against any action that would make being inside the Great Lakes basin more expensive and restrictive than locating outside the basin recognizing the global economic comparisons on the cost of production for locations in the Great Lakes basin. One of the main reasons for pursuing water conservation is to preserve the long term economic advantages provided by the Great Lakes. However, if conservation efforts increase the cost of production beyond economic viability in the short term we will have lost the economic battle in the long-term. If we can't use the water cost effectively, our conservation mission will have failed.

Sincerely,

/s/

Mike Johnston
Director of Regulatory Affairs