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Nine Ways the Biden Administration Will Impact Manufacturing

From Infrastructure to Foreign Policy: How the New Administration Plans to Strengthen U.S. Manufacturing

Gray

Welcome.

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The past few years have been immensely challenging for U.S. manufacturers. Trade wars, tariffs, a global pandemic, and labor shortages have tested their resolve and creativity. Impressively, they have found ways to carry on to meet the needs of their customers.

Now another change awaits them—a new president.

The Biden administration promises to support U.S. manufacturers with "Made in America" and reshoring incentives, stronger supply chains, improved trade policies, increased R&D funding, and expanded workforce initiatives. Other major influences will be corporate taxes, energy initiatives, climate change, and environmental protection.

The new president has an ambitious agenda with good points—the trick is making them all work together in a cost-effective manner, with bipartisan support and collaboration. In this issue of the **Grayway**, we break down the agenda and look at the areas that could impact industry the most.

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Joe Biden Pledges to Support U.S. Manufacturing

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Nine Ways the Biden Administration **Will Impact Manufacturing**

Manufacturing is the backbone of the U.S. economy. In recent years, it has faced big challenges, including trade wars with China and other countries, tariffs, a global pandemic, and labor shortages. Newly elected president Joe Biden has presented an economic agenda that includes a multi-point plan to support U.S. manufacturing through broader trade policies, "Made in America" and reshoring initiatives, increased R&D funding, and growing the manufacturing workforce.

The following are nine key Biden platforms that will impact U.S. manufacturing in the coming years.

U.S. President Joe Biden speaks at a campaign event on manufacturing and buying American-made products at UAW Region 1 headquarters in Warren, Michigan, Sept. 9, 2020.

1. Made in America

President Biden announced his "Made in America" plan in September 2020, committing $400 billion to further support U.S. manufacturing, including a 10% Offshoring Tax Penalty on profits of any production by a U.S. company overseas for sales back to the U.S., and a 10% credit to companies that invest in domestic manufacturing. Other highlights include:

- Revitalize U.S. manufacturing, especially smaller companies and those owned by women and people of color, through specific incentives, additional resources, and financing tools
- Invest $300 billion in research and development, especially for breakthrough technologies
- Develop a "pro-American worker tax and trade strategy" that makes it easier for U.S. manufacturers to be competitive in the global marketplace
- Restructure supply chains to emphasize domestic partners to lessen U.S. dependence on China or other regions for the production of essential or critical goods

2. International Trade

The new administration inherits a challenging trade relationship with China. President Biden plans to use trade enforcement actions as needed against China or other nations that "seek to undercut American manufacturing through unfair practices, including currency manipulation, anti-competitive dumping, state-owned company abuses, or unfair subsidies," states the Joe Biden campaign website.

Biden also prefers enforceable trade agreements with coalitions between the U.S. and larger groups of countries, with broader trade rules that help smaller manufacturers compete and develop international trade relationships.

"Such coalitions of nations that collectively trade with each other also block China from expanding control over the world economy," adds Abe Eshkenazi, CEO at ASCM, a nonprofit association that supports supply chain innovation. "Biden has also expressed support for the United States-Mexico-Canada Agreement and is expected to uphold the deal."

3. Taxes

Biden has proposed a number of new business tax changes, including increasing the corporate income tax rate from 21% to 28% (this does, however, require the approval of Congress). A minimum tax is also planned for businesses with book profits of $100 million or higher which will be "structured as an alternative minimum tax," states Garrett Watson, senior policy analyst at the Tax Foundation. "Corporations will pay the greater of their regular corporate income tax or the 15% minimum tax while still allowing for net operating loss (NOL) and foreign tax credits."

Another change is doubling the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of U.S. firms from 10.5% to 21%. "Biden proposes to assess GILTI on a country-by-country basis and eliminate GILTI's exemption for deemed returns under 10% of qualified business asset investment," adds Watson.

4. Foreign Direct Investment (FDI)

Robust FDI is essential for a strong U.S. economy. FDI supports around 8 million jobs in the U.S., many of them manufacturing. A number of experts believe the flow of FDI into the U.S. will stay steady during the Biden administration. Although more workplace and labor regulations will take effect in the future, the increased payroll costs will likely not dissuade foreign investors.

"Irrespective of Democratic or Republican administrations, there has not been a dramatic shift in terms of FDI in the U.S. for more decades than I can count," says Dennis J. Donovan, principal at Wadley Donovan Gutshaw Consulting. "It has always stayed strong and stable."

In 2020, there was a shift amongst worldwide FDI leaders. The U.S. relinquished the title of the top spot for the first time in decades as new investments fell 49%. China, which has historically held the number two spot, overtook the U.S. with direct investments climbing 4%. Still, analysts claim there is no need to hit the panic button. Many foresee this as the result of the perfect storm of events from 2020 and expect the U.S. to rebound back to number one.

"There is no reason to be concerned about the outlook for the FDI in the United States providing that the U.S. is sticking with its basic open-market competitive system," Daniel Rosen tells the WSJ. Rosen is a founding partner of Rhodium Group, an independent research firm in New York, who has long analyzed the U.S.-China economic relationship.

Shanghai is not only China's financial hub, but it also plays a key role in China's heavy industry—home to the largest steelmakers in the country. This gives reason for why automobile manufacturing remains the city's most important industry. Both Volkswagen and General Motors have plants located here.

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>
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> RHODIUM GROUP

The Committee on Foreign Investment will continue FDI screening to control Chinese investment into sensitive sectors, such as technology. Relationships with European countries will likely improve, which will make "institutional capital coming out of Europe feel more comfortable in the U.S.," says Alexis Crow, director of geopolitical investing practice at PwC. "A lot of capital is waiting in the wings, in terms of infrastructure investing. If we see a large-scale, stimulus-style infrastructure spending bill, then we will see a lot more foreign investment."

5. Energy

Biden plans to invest $2 trillion in an extensive clean energy plan that includes infrastructure upgrades, sustainable residential and commercial/industrial development, and reduced environmental impacts from the power industry. The goal is for an economy-wide net-zero carbon

emissions standard by 2050 and a 2035 target date for a carbon pollution-free American utility sector. Biden has or will regulate methane emissions in the oil and gas industry, halt drilling in the Arctic National Wildlife Refuge, and temporarily ban any new oil and gas leasing or drilling on public lands until environmental impacts can be reviewed. He also suspended the Keystone XL pipeline in January.

"Manufacturers are disappointed with the administration's decision to block this sustainable project, which can serve as a model for infrastructure of the future, and if not reconsidered, represents a missed opportunity for manufacturing workers in America," says Jay Timmons, CEO of the National Association of Manufacturers.

Biden also hopes to develop new hydrogen energy innovations for power and storage, using renewables to produce carbon-free hydrogen power. "This may ultimately produce hydrogen power at a lower cost than from shale gas by using other next-generation technologies which produce hydrogen without the emission of greenhouse gases," says attorney Sheila McCafferty Harvey, energy industry group leader for Pillsbury Winthrop Shaw Pittman LLP.

6. Infrastructure

The Biden administration plans to spend $2 trillion on infrastructure, including $50 billion on road and bridge repairs in his first year in office, along with a significant focus on building out transit in high-poverty areas and high speed rail. Airports and inland waterways will also see investment.

"The president has also proposed an outpouring of federal dollars to invest in innovative technologies like smart pavement, vehicle-to-infrastructure communication, and connected intersections," reports Engineering.com.

Commuter trains, buses, and passenger vehicles that run on electricity or clean fuel will be a top priority, catalyzed by federal funding to develop

local light rail and bus systems. The plan also calls for increased production of electric cars and batteries and boosting fuel economy standards. In addition, it will create incentives to upgrade millions of houses and commercial buildings to make them more resistant to extreme weather.

In addition, infrastructure improvements related to Biden's clean energy plan will create thousands of construction jobs and boost local economies.

7. Stronger Supply Chains

The Biden administration will launch a comprehensive and ongoing process to evaluate and protect key U.S. supply chains, starting with a 100-day supply chain review, to determine key weaknesses in vital sectors, especially for goods and materials that are critical to the U.S. economy and national security. Other aspects of this plan include:

- Leveraging federal buying power, including the Defense Production Act, BARDA, and federal procurement, to make critical products in the U.S.
- Eliminate incentives in the tax code for pharmaceutical and other companies that make critical products to move production overseas and establish new incentives that make domestic manufacturing more attractive
- Rebuild critical stockpiles, ensure adequate surge manufacturing capacity in times of crisis, and regularly review supply chain vulnerabilities
- Work with allies to reduce their dependence on competitors like China while modernizing international trade rules to secure U.S. and allied supply chains

8. Workforce Development

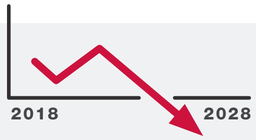
Biden intends to create millions of high-quality jobs in the U.S. The economic recovery package he sends to Congress is said to include policies that will raise wages and secure stronger benefits. "This legislation will make it easier for workers to organize a union and bargain collectively with their employers by including the Protecting the Right to Organize Act, card check, union and bargaining rights for public service workers, and ending the misclassification of workers as independent contractors," states the Joe Biden campaign website.

Further, he plans to invest $50 billion in high-quality training programs that provide workers the opportunity to earn an industry-recognized credential without debt. As part of this commitment, community college-business-union partnerships will be expanded to develop effective training programs as a way to counter the looming skills gap in manufacturing.

Deloitte and The Manufacturing Institute Report:

The Skills ⟷ Gap

An estimated **2.4 million** positions unfilled between 2018 and 2028.



Potential impact of **$2.5 trillion** on the U.S economy.

9. Environmental Policies

The Biden administration aims to address climate change by ensuring the U.S. achieves a 100% clean energy economy and net-zero emissions no later than 2050. This will likely require reducing methane emissions, making federally owned buildings more energy efficient, and reducing transportation emissions.

One of the first foreign policy moves Biden undertook was rejoining the Paris Agreement. “Doing so will commit the United States to certain greenhouse gas and emissions levels by certain years, adding further incentive to effectuate changes domestically to achieve the international goals,” states John Gardella, an attorney and expert in environmental law with CMBG3 Law in Boston.

The Trump administration reversed nearly 100 environmental regulations, including vehicle emissions standards adopted under the Obama administration. Biden has pledged to reinstate these regulations, especially those impacting the auto industry. “He has also promised $400 billion in public investment in clean energy, including battery technologies and electric vehicles,” says Michael Wayland, an expert on the global automotive industry and reporter for CNBC.

Moving Forward

President Biden must contend with pressing issues immediately, including a rampant COVID-19 pandemic, struggling economy, federal debt, more than 10 million unemployed workers, and climate change.

While President Biden is faced with a surplus of decisions one thing is clear, a lot of change is intended with the new administration, but it remains to be seen what will be accomplished when, and how quickly it will be adopted.

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GRAY—WE'RE BUILDING

Clemens Food Group

HATFIELD / PENNSYLVANIA

Clemens Food Group and Gray partner for a second time to design and build a 308,000 s.f. smoked pork manufacturing facility. Located on approximately 32 acres, the new facility will be located at the Clemens complex in Pennsylvania and is scheduled to be complete in the spring of 2022.

InLine Engineers, a Gray Company, will be providing process and primary packaging equipment engineering services for the project.

Clemens Food Group is a sixth-generation, family-owned business that has been delivering quality pork products since 1895. With brands such as Hatfield, Farm Promise, and Premium Reserve, Clemens is one of the leading pork processing companies in the U.S.

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