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## Canada-United States Economic Competitiveness in a Period of Financial Instability: A Common Cause Agenda

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# CANADA-UNITED STATES ECONOMIC COMPETITIVENESS IN A PERIOD OF FINANCIAL INSTABILITY: A COMMON CAUSE AGENDA

*Session Chair – T. Bradbrooke Smith*  
*Canadian Speaker – Daniel Desjardins*  
*United States Speaker – Craig Reed*  
*United States Speaker – Jeff Weedman*

## INTRODUCTION

*T. Bradbrooke Smith*

MR. SMITH: Sitting behind this bell, I feel as if Henry King is here with us, and the bell is liable to ring at any time. It is a great privilege to be here, and I am sorry Henry is not among us, I came to this panel as raw as you all, and I was actually invited to chair another panel on an agricultural subject, which I have some knowledge of from a “barnyard” point-of-view. However, this panel’s topic is one which I claim no expertise in or knowledge of whatsoever. Fortunately, we have a distinguished panel to help us. First is Daniel Desjardins from Bombardier.

## CANADIAN SPEAKER

*Daniel Desjardins*<sup>\*</sup>

MR. DESJARDINS: Thank you. Good morning. Before I start, let me say a few words about Bombardier's year-end results. Yesterday, we published our year-end results for Bombardier's fiscal year, which ended on January 31, 2009.<sup>1</sup> I am happy to announce that last year was the best year ever for Bombardier. We made twenty billion in United States dollars in revenues<sup>2</sup> and reported a billion dollars for our net income.<sup>3</sup> Earnings per share were fifty-six cents,<sup>4</sup> which is three times more than last year.<sup>5</sup> We are very proud of those results; however, this positive feeling lasted only a moment, because we also announced a layoff of three thousand employees in addition to the one thousand employees that we let go a month ago, mainly within Bombardier Aerospace.<sup>6</sup> One of the analysts this morning quoted our result as saying, "upping the train, the plane's going to be late."

Let me next present what we do at Bombardier. I think it is important to understand how we manage our operation in North America and how critical an open border is to us. Our corporate offices are in Montreal.<sup>7</sup> We have a

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<sup>\*</sup> Mr. Daniel Desjardins has been Senior Vice President and General Counsel at Bombardier Inc. since October 1st, 2003 and is a member of the Management Committee and of the Corporate Council of the Corporation. From April 1998 to September 2003, he acted as Vice President, Legal Services of Bombardier Inc. Mr. Desjardins also has the corporate responsibility for environmental matters, health and safety as well as insurance and risk management at Corporate Office. From February 1986 to April 1998, Mr. Desjardins was a senior partner of Hudon Gendron Harris Thomson. Mr. Desjardins obtained his Law Degree (LL.L) in 1977 from University of Montreal and his Master Degree (LL.M) in 1983 from McGill University.

<sup>1</sup> BOMBARDIER, OUR WAY FORWARD: ANNUAL REPORT YEAR ENDED JANUARY 31, 2009 (2009), available at [http://www.bombardier.com/files/en/supporting\\_docs/image\\_and\\_media/flash/bw\\_flash\\_url\\_map\\_0000015-PDF.pdf](http://www.bombardier.com/files/en/supporting_docs/image_and_media/flash/bw_flash_url_map_0000015-PDF.pdf).

<sup>2</sup> See Press Release, Bombardier, Bombardier Announces Strong Financial Results for the Fourth Quarter and the Year Ended January 31, 2009 (April 2, 2009), available at <http://www.bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d8008eaba> (noting Bombardier had consolidated revenues of \$19.7 billion).

<sup>3</sup> *Id.*

<sup>4</sup> See *id.* (citing diluted earnings per share of \$0.56).

<sup>5</sup> See *id.* (noting diluted earnings per share of \$0.16 last fiscal year).

<sup>6</sup> See *id.* (explaining that Bombardier Aerospace will reduce its workforce by three thousand employees by the end of the 2009 calendar year in addition to one thousand three hundred sixty layoffs announced February 2009).

<sup>7</sup> See Bombardier, About Us, <http://www.bombardier.com/en/corporate/about-us> (last visited Sept. 16, 2009).

workforce of sixty-six thousand employees worldwide,<sup>8</sup> eight thousand employees in the United States,<sup>9</sup> and twenty thousand in Canada.<sup>10</sup> As I said, our revenues last year were twenty billion in United States dollars,<sup>11</sup> and more than ninety-six percent of our revenues are generated outside Canada.<sup>12</sup> This is true, even though there are twenty thousand Bombardier employees in Canada, roughly one-third of our workforce.<sup>13</sup> The reason for high Bombardier revenues outside of Canada, is because we hardly sell anything in Canada.<sup>14</sup> Bombardier lives and breathes off exports and therefore open borders.<sup>15</sup> Twenty-eight percent of our exports are sold in the United States,<sup>16</sup> fifty-one percent in Europe,<sup>17</sup> and we are listed on the Toronto Stock Exchange.<sup>18</sup>

We have two fields of activities. First, Bombardier Aerospace, which after Boeing and Airbus, is the third largest civil aircraft manufacturer in the world.<sup>19</sup> Also, we are the largest manufacturer of business aircraft,<sup>20</sup> and a good part of that is based in the United States, home of the narrow body aircraft Learjet.<sup>21</sup> The revenue from aerospace was ten billion dollars,<sup>22</sup> and the

<sup>8</sup> See BOMBARDIER, INVESTOR RELATIONS: ANNUAL INFORMATION FORM 2009 23 (Apr. 2, 2009), available at [http://www.bombardier.com/files/en/supporting\\_docs/AIF\\_2009.pdf](http://www.bombardier.com/files/en/supporting_docs/AIF_2009.pdf) [hereinafter BOMBARDIER INVESTOR RELATIONS] (showing in table format the total number of employees in the corporation).

<sup>9</sup> See generally BOMBARDIER, ABOUT US: WORLDWIDE PRESENCE, USA 2 (2007), available at [http://www.bombardier.com/files/en/supporting\\_docs/Bombardier\\_US\\_12\\_2007\\_LR\\_en.pdf](http://www.bombardier.com/files/en/supporting_docs/Bombardier_US_12_2007_LR_en.pdf) [hereinafter BOMBARDIER USA] (showing breakdown of worldwide workforce).

<sup>10</sup> See BOMBARDIER, ABOUT US: WORLDWIDE PRESENCE, CANADA 8, 10 (2008), [http://www.bombardier.com/files/en/supporting\\_docs/Canada\\_Bombardier\\_10\\_2008\\_LR\\_en.pdf](http://www.bombardier.com/files/en/supporting_docs/Canada_Bombardier_10_2008_LR_en.pdf) [hereinafter BOMBARDIER CANADA] (noting the number of Canadian employees in transportation and aerospace sectors).

<sup>11</sup> See Bombardier, *supra* note 2 (noting Bombardier had consolidated revenues of \$19.7 billion).

<sup>12</sup> See BOMBARDIER INVESTOR RELATIONS, *supra* note 8.

<sup>13</sup> See BOMBARDIER CANADA, *supra* note 10, at 3.

<sup>14</sup> See BOMBARDIER INVESTOR RELATIONS, *supra* note 8.

<sup>15</sup> See generally Department of Foreign Affairs and International Trade Canada, *Government of Canada Provides Support to Bombardier* (Aug. 5, 2009), [http://w01.international.gc.ca/MinPub/publication.aspx?publication\\_id=387446&lang=eng&dnum=215](http://w01.international.gc.ca/MinPub/publication.aspx?publication_id=387446&lang=eng&dnum=215) (discussing the importance of Export Development Canada lending \$173 million to help Bombardier deliver an order of its aircraft to a European Airline).

<sup>16</sup> See generally BOMBARDIER, *supra* note 9, at 2 (showing thirty-two percent revenue for Bombardier in the United States).

<sup>17</sup> See generally *id.* (showing forty-five percent of Bombardier revenue in Europe).

<sup>18</sup> See Bombardier, *supra* note 7.

<sup>19</sup> See *id.*

<sup>20</sup> See generally Bombardier, Aerospace: Products, Commercial Aircraft, <http://www.bombardier.com/en/aerospace/products/overview?docID=0901260d80018714> (last visited Sept. 27, 2009) [hereinafter Bombardier Aerospace] (noting that Bombardier ranks as the world leader in business and regional jets).

<sup>21</sup> See generally BOMBARDIER USA, *supra* note 9, at 2 (showing revenue by market).

backlog stood at twenty-three billion dollars,<sup>23</sup> which is basically over two years of production in backlog. Second is, Bombardier Transportation, which is the world leader rolling stock manufacturer.<sup>24</sup> Bombardier Transportation had revenue of ten billion dollars,<sup>25</sup> a backlog of twenty-four billion,<sup>26</sup> and employs thirty-four thousand individuals around the world.<sup>27</sup>

Bombardier has fifty-one manufacturing facilities in twenty-one countries.<sup>28</sup> Now what do we do in the United States? First, let us talk about our products, Bombardier Transportation provided rail cars to the New York and to the Chicago Transit Authorities.<sup>29</sup> It also provided light rail vehicles to Minneapolis,<sup>30</sup> and sold commuter cars to the Long Island and New Jersey Transit Authorities.<sup>31</sup> We manufactured the Acela Express, which is the fastest train in the United States and is operated by Amtrak in the Boston, New York, and Washington corridor.<sup>32</sup> The Acela Express is the fastest train in the United States, but is far from being the fastest in the world<sup>33</sup> and is sadly indicative of the lack of investment in rail infrastructure in the United States.<sup>34</sup> We manufacture other trains that can go up to two hundred fifty kilometers an hour.<sup>35</sup> The Acela Express could also go faster if the track was

<sup>22</sup> See Bombardier, *supra* note 20 (noting Aerospace revenues ten billion dollars for the fiscal year ended January 31, 2009).

<sup>23</sup> See *id.* (noting a backlog of \$23.5 billion).

<sup>24</sup> See BOMBARDIER USA, *supra* note 9, at 2 (noting that Bombardier is the world leader in the design and manufacture of rolling stock in rail transportation).

<sup>25</sup> See Bombardier, Transportation, About Us, <http://www.bombardier.com/en/transportation/about-transportation> (last visited Sept. 26, 2009) (noting that Bombardier had nine thousand seven hundred fifty-six million dollars in revenue for the year-ended January 31, 2009).

<sup>26</sup> See *id.* (citing \$24.7 billion in backlog).

<sup>27</sup> See *id.*

<sup>28</sup> See *id.* (noting Bombardier's fifty production and engineering sites in twenty-four countries).

<sup>29</sup> See generally BOMBARDIER, *supra* note 9, at 2 (noting transportation projects in various cities in the United States).

<sup>30</sup> See Bombardier Inc., Transportation: Light Rail Vehicles, <http://www.bombardier.com/en/transportation/products-services/rail-vehicles/light-rail-vehicles/flexity-light-rail-vehicles/minneapolis--usa?docID=0901260d8000cbd8> (last visited Sept. 26, 2009) [hereinafter Bombardier Light Rail] (providing overview of light rail project in Minneapolis-Saint Paul).

<sup>31</sup> See generally, BOMBARDIER USA, *supra* note 9, at 2.

<sup>32</sup> See Bombardier Light Rail *supra* note 31 (providing overview of the Acela Express).

<sup>33</sup> See Christopher Schpoliansky, *Fastest Train in the World Hits France*, ABC NEWS INTERNATIONAL, Apr. 3, 2007, <http://abcnews.go.com/International/story?id=3004116&page=1> (stating TGV broke its previous world speed record at 357.2 mph).

<sup>34</sup> See, e.g., J Atwood, *A New International Regime for Railway Rolling Stock Asset-Based Financing*, 40 UCC L.J. 3 ART. 2 (2008) (stating the need for capital investment in the United States rail infrastructure).

<sup>35</sup> See Bombardier Light Rail, *supra* note 30 (noting that Bombardier's ZEFIRO high speed technology enables trains to travel between 250 and 360 km/h).

improved.<sup>36</sup> We also make “people movers,” such as the Monorail System in Las Vegas, Nevada.<sup>37</sup>

Our workforce in the United States consists of twenty-seven hundred employees at Bombardier Transportation.<sup>38</sup> We have a major plant in Plattsburgh where we assemble all of our rail cars and rolling stock sold in the United States.<sup>39</sup> We also have facilities in the state of New York for the maintenance of rolling stock<sup>40</sup> and in Pittsburgh, Pennsylvania, where over a thousand of our United States employees work, most of whom are white collar engineers.<sup>41</sup> Pittsburgh is our center of excellence for the Automated People Mover (APM), which we sell in the United States and worldwide.<sup>42</sup> For example, we sold the APM to the Beijing Airport for us during the 2008 Olympics.<sup>43</sup> Pittsburgh is also our worldwide center of expertise for system integration.<sup>44</sup> Basically, this expertise allows us to provide the cars, the signaling, and the data and control room, whenever new systems with civil engineering are built. From January 2006 to December 2008, Bombardier Transportation North America purchased over six hundred seventy-five million dollars worth of supplies from three hundred suppliers in thirteen states.<sup>45</sup>

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<sup>36</sup> See R. Clifford Black, *Japan Railway and Transport Review, The Acela Express*, JAPAN RY. & TRANSP. REV., March 2005, at 18, 21 (2005) available at [http://www.jrtr.net/jrtr40/pdf/f18\\_bla.pdf](http://www.jrtr.net/jrtr40/pdf/f18_bla.pdf).

<sup>37</sup> See Bombardier, Transportation: Automated Monorails, <http://www.bombardier.com/en/transportation/products-services/transportation-systems/driverless-systems/automated-monorails/las-vegas--usa?docID=0901260d8000a7ea> (last visited Sept. 27, 2009).

<sup>38</sup> See generally BOMBARDIER USA, *supra* note 9, at 1.

<sup>39</sup> See *id.*

<sup>40</sup> See generally *id.* (noting maintenance facility in New York for Bombardier transportation).

<sup>41</sup> See *Bombardier to Build Electric Commuter Trains*, PITTSBURGH BUS. TIMES, Mar. 9, 2009 available at <http://pittsburgh.bizjournals.com/pittsburgh/stories/2009/03/09/daily5.html#> (discussing a recent contract acquired by Bombardier with the Australian government and noting that Bombardier's Pittsburgh location employs about one thousand individuals).

<sup>42</sup> See generally Press Release, Bombardier, Bombardier Awarded a Contract for an Automated People Mover System in China in Time for the 2008 Olympic Games in Beijing (May 18, 2005), available at <http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d8000fbc9> (last visited Sept. 29, 2009) (stating Pittsburgh facility to be responsible for the manufacture and design for APM).

<sup>43</sup> See Press Release, Bombardier, Bombardier Completes Automated People Mover System in Beijing, China (Dec. 10, 2007), available at <http://www.bombardier.com/en/transportation/media-centre/press-releases/details?docID=0901260d8000bc06> (announcing the APM to be on target for completion by 2008 Beijing Olympics).

<sup>44</sup> See PITTSBURGH G-20 PARTNERSHIP, ABOUT THE PARTNERSHIP: BOMBARDIER (2009), available at <https://www.pittsburghg20.org/PDFs/OrgFactSheets/OFSBombardier.pdf>.

<sup>45</sup> See generally Bombardier, Aerospace: Approved Supplier Listing by Supplier Name, <http://www.bombardier.com/en/aerospace/suppliers/current-suppliers?docID=0901260d8000cb23> (last visited Oct. 8, 2009) [hereinafter Bombardier Aer-

Bombardier Aerospace has over one thousand commercial aircraft in operation in the United States.<sup>46</sup> Our Canadair Regional Jet (CRJ) program is the fifth most successful program in the history of civil aviation by numbers sold and in operation.<sup>47</sup> It is a standing success, and most of you probably have flown on one of our CRJs in the United States. Bombardier Aerospace facilities are mainly concentrated in Wichita, Kansas, which is also home of our Learjet brand. Two thousand of Bombardiers employees work in Wichita.<sup>48</sup> There are roughly fifteen hundred Learjet aircrafts in operation in the United States,<sup>49</sup> and twenty-two thousand Learjet aircrafts in operation around the world.<sup>50</sup> We manufacture all of our business narrow body business jets in Wichita. If our commercial aircrafts and our business aircrafts are added together, there is one Bombardier aircraft taking off or landing every four seconds.<sup>51</sup> Bombardier spends two billion dollars annually in the United States on supplies across thirty-eight states.<sup>52</sup> We recently launched our C Series Aircraft on July 13, 2008, which is our “game changer.”<sup>53</sup> The C Series Aircraft will enter into service in 2013,<sup>54</sup> and fifty percent of the value of the supply chain of this aircraft will come from the United States. Most of the value will derive from purchasing the new Pratt and Whitney engine, which is owned by Unitech Technologies.<sup>55</sup> With the air frame, the composite wing, and the new engine, the C Series Aircraft will deliver up to twenty percent savings in fuel consumption compared with any other aircraft in its category.<sup>56</sup>

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ospace Suppliers] (providing list of currently approved suppliers in the United States).

<sup>46</sup> See BOMBARDIER USA, *supra* note 9 (stating that Bombardier has over 990 CRJ Series and 184 Q-Series aircraft in service in the United States).

<sup>47</sup> See generally Bombardier Inc., Aerospace: Products, CRJ Series, <http://www.crj.bombardier.com/CRJ/en/home.jsp> (last visited Oct. 8, 2009).

<sup>48</sup> See generally BOMBARDIER, *supra* note 9, at 2.

<sup>49</sup> See generally Bombardier Learjet, Learjet Careers: Learjet History, <http://www.learjetcareers.com/index.html> (last visited Oct. 9, 2009).

<sup>50</sup> See generally Bombardier, Inc., Aerospace: Learjet, [http://www2.bombardier.com/en/3\\_0/3\\_2/3\\_2.jsp](http://www2.bombardier.com/en/3_0/3_2/3_2.jsp) (last visited Oct. 8, 2009) (providing overview of Learjet family of aircraft).

<sup>51</sup> See generally Bombardier Inc., Aerospace: Commercial Aircraft, <http://www.bombardier.com/en/aerospace/products/index> (last visited Oct. 8, 2009) (overview of business and commercial aircraft and products at Bombardier).

<sup>52</sup> See generally Bombardier, *supra* note 45.

<sup>53</sup> See BOMBARDIER, *supra* note 8, at 5 (noting that on July 13, 2008 the Board of Directors granted approval for the launch of the C Series family of aircraft).

<sup>54</sup> See *id.* (stating that the C Series will enter into service in the second half of 2013).

<sup>55</sup> See Bombardier Inc., Aerospace: Products, C Series, Technology, [http://www.bombardier.com/en/aerospace/products/commercial-aircraft/cseries/technology?](http://www.bombardier.com/en/aerospace/products/commercial-aircraft/cseries/technology?docID=0901260d800091f1)  
[docID=0901260d800091f1](http://www.bombardier.com/en/aerospace/products/commercial-aircraft/cseries/technology?docID=0901260d800091f1) (last visited Oct. 8, 2009).

<sup>56</sup> See Bombardier Inc., About Us: Aerospace, Commercial Aircraft, C Series, <http://www.bombardier.com/en/aerospace/products/commercial->

What does it mean for us? As I said, Bombardier Aerospace relies on a strong supply chain in the United States. We have components moving back and forth across the border. Bombardier Aerospace's Learjet is an important exporter of business aircraft. United States' laws and regulations are central to our business, and we need predictability. As you have seen from the short description of our activities, the system to control the flow of components and of personnel across borders is extremely important to us. We pay careful attention to United States' regulations, including International Traffic in Arms Regulations and export control regulations. That way we know what we are dealing with and it is essentially predictable. Strong relations are also an asset, especially when it involves consistency across the border. We rely on a strong Federal Aviation Administration (FAA) certification system in the United States and in a strong cooperation between the FAA and Transport Canada.

There is now an exceptional free market in the aircraft industry in North America. With this free market, North America is the home of two of the three largest manufacturers worldwide,<sup>57</sup> Boeing and Bombardier. Therefore, any protectionist measure in aerospace will be entirely counterproductive and will inhibit the growth of the United States industry. Again, not only do we manufacture aircraft in the United States, but also many components of our aircraft are manufactured in the United States.

We also rely on a strong and consistent financial market. Bombardier is traded on the Toronto Stock Exchange,<sup>58</sup> but we rely on the United States market in order to ensure that we have appropriate funding. Even though the Canada banking sector may be among the most stable and sound, the United States' meltdown affected our customers, and therefore affected us. In fact, many of Bombardier's issues strictly stem from the financial crisis. For example, the financial crisis is one of the key reasons why we had layoffs. For Bombardier Transportation in the United States, protectionism is a fact of life, and we learned to live with it. The Buy America Act in the rail industry has been around for almost two decades,<sup>59</sup> so we established plants in the United States to satisfy the need. However, the Buy America Act still affects us, because there is a different rule between the United States and Canada, and therefore it is still a challenge. While Buy America and similar procurement regimes around the world are a fact of life, we face another enorm-

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aircraft/cseries?docID=0901260d800091e6 (last visited Oct. 4, 2009).

<sup>57</sup> See INDUSTRY WEEK, IW 1000: THE WORLD'S BIGGEST MANUFACTURERS (2009), available at <http://www.industryweek.com/research/iw1000/2009/iw1000rank.asp> (naming Boeing Co. and United Technologies Corp. as two of the three top aerospace and defense manufacturers in the world).

<sup>58</sup> See Bombardier, *supra* note 7.

<sup>59</sup> See 49 C.F.R. § 661 (2009) (describing Buy America Act, including updates and revisions).



ous issue in Canada where no such national standard is applied to ensure that manufacturers invest locally.<sup>60</sup> I make the point to underline one key thing, how difficult it is to reestablish a free and open market once a country has introduced protectionist measures. Once a protectionist measure is established returning to an open market is really difficult. At the end of the day, these measures do reduce competition. Bombardier is in the United States, and when we are tendering on rail product in this country, because of the Buy America Act, a lot of our international competitors are not competing with us in the United States. You need huge orders to sustain a local footprint. Therefore, the Buy America Act reduces competition for us, particularly in the rail industry.

Open borders are extremely important to Bombardier, because we rely on just-in-time production. New restrictions on cross-border movement that affect our supply chain will put us at risk. Excessive paperwork and processing at borders will also hurt our competitiveness. We are a highly integrated North American company, and any restrictions or regulations at the border that stops the flow of goods and reduces the competitiveness of the aerospace industry or the rail industry will not only affect us in Canada but would affect our United States employees, suppliers and customers.

In conclusion, allow me to remind you of the petition of the candle-makers written by Frédéric Bastiat, who was a French economist in 1845.<sup>61</sup> He was a believer of free trade, and he wrote, in a very satirical fashion, *The Candle-makers' Petition to the French Parliament*.<sup>62</sup> In this petition, the candle-makers asked the French Parliament to make laws to protect their trade from an unfair foreign competitor, the sun.<sup>63</sup> In that petition, they were asking the French Parliament to order that all of the windows in France be shut during the day, all the curtains drawn and blinds closed, so that there would be total darkness. With that total darkness, the French population would buy more French candles, and therefore would be good for the economy. I think this image is very powerful. Protectionism leads to isolation, and it leaves us all standing in the dark. Thank you.

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<sup>60</sup> See generally Department of Foreign Affairs and International Trade Canada, Buy American and Buy America, <http://www.canadainternational.gc.ca/sell2usgov-vendreagouvusa/procurement-marches/buyamerica.aspx?lang=eng> (last visited Oct. 8, 2009) (noting that Buy America puts Canadian goods and services at a disadvantage to their United States competitors).

<sup>61</sup> See Frédéric Bastiat, *Pétition des Fabricants de Chandelles, Bougies, Lampes, Chandeliers, Réverbères, Mouchettes, Éteignoirs, et des Producteurs de Suif, Huile, Résine, Alcool, et Généralement de tout ce qui Concerne l'éclairage*, in 12 JOURNAL DES ÉCONOMISTES : REVUE MENSUELLE D'ÉCONOMIE POLITIQUE, ET DES QUESTIONS AGRICOLES, MANUFACTURIÈRES ET COMMERCIALES 204 (1843).

<sup>62</sup> See *id.*

<sup>63</sup> See *id.*

MR. SMITH: Thank you, Daniel. Next, is Craig Reed from the Eaton Corporation.

# UNITED STATES SPEAKER

*Craig Reed*<sup>\*</sup>

MR. REED: Thank you. It is great to be here with you today. My name is Craig Reed, and I am Senior Vice President for Supply Chain Management with Eaton Corporation,<sup>64</sup> which is headquartered here in Cleveland, Ohio.<sup>65</sup> It is interesting to follow Dan's discussion because our business is primarily a B-to-B business.<sup>66</sup> We are primary suppliers to many companies and industries.<sup>67</sup> I will take you through our company history and then discuss sourcing, the impact that we are seeing now in the financial markets, and the economic stresses on our supply base.

So who is Eaton? Eaton is a power management company.<sup>68</sup> Traditionally, Eaton was seen as an industrial company supporting primarily automotive makers and truck manufacturers.<sup>69</sup> However, since then our CEO, Sandy Cutler, had a vision for us to change the mix of our business so that we could

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\* Craig Reed is Senior Vice President, supply chain management for Eaton Corporation. He leads global policy and functional alignment for supply chain management worldwide for Eaton Corporation. Prior to joining Eaton Corporation, Mr. Reed was Vice President of global sourcing for MeadWestvaco's Consumer Solutions Group, and was responsible for the procurement and supply management of more than fifty production plants and administrative operations around the world. He also has supply chain management experience with Delta Air Lines, Deere & Co., BMW Manufacturing and Honda of America Manufacturing. Mr. Reed helped develop a Supply Chain Advisory Board for Clark Atlanta University and is a founding member of the Conference Board's, Global Outsourcing and Off-Shoring Council. Mr. Reed received his bachelor's of science degree in economics from Florida A&M University and his MBA degree, with a supply chain management concentration, from Arizona State University.

<sup>64</sup> Eaton Corp., About Us: Corporate Officers, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/CorporateInformation/Leadership/Officers/index.htm> (last visited Oct. 4, 2009).

<sup>65</sup> See Eaton Corp., About Us: Fast Facts, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/CorporateInformation/FastFacts/index.htm> (last visited Oct. 4, 2009).

<sup>66</sup> See generally *id.* (providing an overview of Eaton's business markets and sectors).

<sup>67</sup> See generally Eaton Corp., About Us, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/index.htm> (last visited Oct. 4, 2009) [hereinafter *Eaton Generally*] (noting various industries of Eaton Corporation and sales in more than one hundred fifty countries).

<sup>68</sup> See *id.*

<sup>69</sup> See generally Eaton Corp., About Us: Eaton History, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/EatonHistory/index.htm> (last visited Oct. 4, 2009).

better manage the company through the cycle,<sup>70</sup> and we are happy to say that, like Bombardier, Eaton set a new record for itself by exceeding \$15.4 billion in net sales last year.<sup>71</sup>

We specialize primarily in electrical, hydraulic, and mechanical power generation.<sup>72</sup> If you look at our business by segment our largest is electrical.<sup>73</sup> Forty-five percent of our business actually comes from electrical customers across many different segments.<sup>74</sup> We are doing things that support power management in hospitals, in commercial facilities, as well as in your homes.<sup>75</sup> Another of Eaton's segments is the automotive group, which used to be very large, but now it is relatively even with our truck and our aerospace division,<sup>76</sup> and accounts for only about only twelve percent of our business.<sup>77</sup> We manufacture many products to support the automotive industry through power management,<sup>78</sup> for example we produce superchargers and engine valves for engine controls.<sup>79</sup> Eaton also manufactures products around engine power management for conservation and things of that nature.<sup>80</sup>

Another key area for Eaton is aerospace.<sup>81</sup> We are manufacturing items that support power management and generation as well as the flow of fuel around the aircraft itself to help drive efficiency and power management in

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<sup>70</sup> See Eaton Corp., About Us: From the CEO, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/FromtheCEO/index.htm> (last visited Oct. 4, 2009).

<sup>71</sup> See generally Eaton, *supra* note 67 (noting sales of \$15.4 billion in 2008).

<sup>72</sup> See generally *id.* (stating that Eaton is a global leader in electrical components and systems for power quality, distribution and control, and hydraulics components).

<sup>73</sup> See EATON CORP., INVESTOR RELATIONS: FINANCIAL REPORTS, 2008 ANNUAL REPORT 7 (2008), available at <http://www1.eaton.com/eatonar08/PDF/Eaton2008AnnualReport-NoPics-B&W.pdf> [hereinafter EATON INVESTOR RELATIONS] (stating Eaton's electrical revenues represented forty-five percent of the company's total revenue for 2008).

<sup>74</sup> See *id.*

<sup>75</sup> See generally Eaton Corp., About Us: Business Groups, Electrical, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/BusinessGroups/Electrical/index.htm> (last visited Oct. 8, 2009) (noting the different areas that Eaton electrical products serve).

<sup>76</sup> See Eaton Corp., About Us: Business Groups, Automotive, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/BusinessGroups/Automotive/index.htm> (last visited Oct. 4, 2009) [hereinafter Eaton Automotive].

<sup>77</sup> See EATON INVESTOR RELATIONS, *supra* note 73, at 43 (noting approximately \$1.9 billion in net sales for the automotive sector as compared with Eaton's total net sales of \$15.4 billion).

<sup>78</sup> See Eaton Automotive, *supra* note 76 (noting Eaton power products help automotive industry face increasing challenges and demands).

<sup>79</sup> See *id.*

<sup>80</sup> See *id.*

<sup>81</sup> See Eaton Corp., About Us: Business Groups, Aerospace, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/BusinessGroups/Aerospace/index.htm> (last visited Oct. 4, 2009).

that way.<sup>82</sup> Eaton also has a hydraulics sector, which accounts for about sixteen percent of our business.<sup>83</sup> This sector is primarily supporting oil fields and power management in power systems in the agricultural sector and heavy industry.<sup>84</sup> By destination, our company has truly diversified our revenues to create global balance. Eaton's sales in the United States sales currently account for about forty-five percent of our business, while international sales account for fifty-five percent.<sup>85</sup>

Last year, we started looking at our company and truly started to understand it better and take it to what we considered to be the next level. We restructured the company and now all businesses fall under two sectors.<sup>86</sup> The first is the electrical sector, which is broken up by electrical Americas and electrical rest of World.<sup>87</sup> The second is the industrial sector, which includes our aerospace, truck, automotive, and hydraulic businesses.<sup>88</sup> The primary reason why we restructured Eaton is because as we grew we created tremendous synergies between our businesses that we are only now able to take advantage of.<sup>89</sup> We are able to cross over in areas and our customers are starting to see that we are able to provide them greater value as one company, one Eaton, as opposed to the small groups of companies that were underneath the umbrella of Eaton.<sup>90</sup> Basically to better serve our customers and create a greater value proposition, we moved to a business model that we believe allows us to, one, serve our customers better, and, two, allow us to be efficient and effective in managing our assets.

If we look at the industrial sector as an example, we can look at the internal resources, footprint management, even some of our customer connections, to find opportunities to provide our customers with significant benefits. We are also able to provide significant benefits for our suppliers, in terms of our management of the flow of goods around the world to support our manufacturing operations. In 2008, Eaton's net sales in Canada were just at a little over four hundred million dollars.<sup>91</sup> Last year, net sales were about three

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<sup>82</sup> See *id.* (noting that Eaton is a leading designer and manufacturer of various aerospace systems).

<sup>83</sup> See EATON INVESTOR RELATIONS, *supra* note 73, at 43 (noting \$1.8 billion in net sales for hydraulics sector as compared with Eaton's total net sales of \$15.4 billion).

<sup>84</sup> See Eaton Corp., About Us: Business Groups, Hydraulics, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/BusinessGroups/Hydraulics/index.htm> (last visited Oct. 8, 2009).

<sup>85</sup> See EATON INVESTOR RELATIONS, *supra* note 73, at 3.

<sup>86</sup> See *id.*

<sup>87</sup> See *id.*

<sup>88</sup> See *id.*

<sup>89</sup> See generally *id.* (noting that the reorganization of business sectors will continue to facilitate growth).

<sup>90</sup> See *id.*

<sup>91</sup> See *id.* at 43 (noting net sales in Canada of \$428 million in 2008).

hundred seventy-one million dollars.<sup>92</sup> This indicates a continuous increase in Eaton's net sales in that region. Last year, if you take a look at the economic cycle, first quarter, second quarter, and third quarter were very good quarters.<sup>93</sup> Fourth quarter is when we started to see deterioration in our markets.<sup>94</sup> So if you would look at this on a run rate basis, we would have expected that extrapolation to give us a little more impact in terms of the region, but we didn't see it in that fourth quarter. Today we are about \$155 million in terms of purchases coming out of Canada,<sup>95</sup> and that is a tremendous increase from 2007 when we were just over a hundred million; \$110 million.<sup>96</sup>

Total purchases by Eaton Canada facilities, and this really gets into our operations in Canada in terms of what we're doing there, is just over a hundred million this year.<sup>97</sup> We are doing business in over 150 countries, and so essentially we are taking the opportunity to provide value-added products from our supply base in Canada throughout the rest of the world.<sup>98</sup> Primarily for us in this case is North America.<sup>99</sup> This is why I think the trade between Canada and the United States is so important.

When we talk about sourcing considerations and the things that my team and I look at when we start to talk about doing business, regardless of where it is, we are really moving to a total landed cost approach. We are looking to have clear transparency in terms of, what is the raw material cost, what is the cost to transform that raw material into the desired product and part, what is the sales general administrative costs around that, what is the tooling expectations, lead times, and things of that nature. So for us, that is just one piece of the puzzle. Traditionally, when you think of sourcing, the thought process is really around price, and it is a lot more than price, especially in today's economy.

The other thing that has really been prevalent for us, especially coming out of 2007 going into 2008, and now 2009, is freight and transportation. We have seen a tremendous change in this arena where over the last year we saw the cost of fuel double.<sup>100</sup> In a business like ours where we are really moving

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<sup>92</sup> See *id.* at 45.

<sup>93</sup> See generally *id.* at 55 (noting Eaton's net sales for the first three quarters of 2008).

<sup>94</sup> See *id.*

<sup>95</sup> See generally *id.* at 52.

<sup>96</sup> See generally *id.*

<sup>97</sup> See generally *id.*

<sup>98</sup> See Eaton, *supra* note 67.

<sup>99</sup> See generally EATON INVESTOR RELATIONS, *supra* note 73, at 42 (noting that nine billion of Eaton's fifteen billion in 2008 sales came from the United States and Canada).

<sup>100</sup> See generally ENERGY INFO. ADMIN., DIESEL FUEL PRICES, WHAT CONSUMERS SHOULD KNOW 2 (2008), available at <http://www.eia.doe.gov/bookshelf/brochures/diesel/printversion.pdf> (noting surge in diesel fuel prices in 2008).

a lot of product globally around the world to support our manufacturing facilities, it has a significant impact, especially when you look at it on a margin basis. For us, it is very important to understand the cost of the supply chain in terms of how we are moving product and providing goods to our factories as well as to our end customers.

Also, the relationship between duties and tariffs in terms of where we buy from and what that means in terms of the overall total cost. As you start to buy across the globe, many of the countries have requirements for what you will be responsible for as it relates to the cost that they will charge you in terms of moving product outside of their country or moving products into their country.<sup>101</sup> From a cost perspective, we have to be conscious of that because these things are changing constantly. As a result, it can have a true impact to our total cost.

Also for us, which I think is very important, is inventory carrying cost. I think we have all heard over the last year, this massive move of product from the Americas out to China and out to Eastern Europe for supply back to North America.<sup>102</sup> What that does provide for companies, especially in today's economy, is an extreme drag on cash flow because essentially now you have inventory carrying costs as well as your capital tied up in that inventory as it is moving from very long distances into your operations, including the risk associated with that.<sup>103</sup>

The other things that we are looking at from a sourcing perspective are exposure costs. These are the things like the cost of poor quality and containment actions. The longer your supply chain, the more risk you have in terms of being able to respond appropriately when there is an issue.<sup>104</sup> You have to be very conscious and ensure that you have selected the best partners that will be able to manage that risk in a way that is truly going to protect you at the end of the day and allow you to meet your fulfillment requirements to the end customer.

Also, product changes create business risk when your supply chain is very long. Being able to manage the cost of supply changes, especially when you are dealing in an age of innovation, and in our case, an age where our customers have a huge impact on our requirements is paramount.<sup>105</sup> So all of

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<sup>101</sup> See generally News Release, U.S. Bureau of Labor Statistics, U.S. Import and Export Price Indexes (Oct. 14, 2009), available at <http://www.bls.gov/mxp/> (noting import and export prices for various categories of goods).

<sup>102</sup> See DEP'T OF COMMERCE, 2009 ANTIDUMPING MANUAL: GLOSSARY OF TERMS (Oct. 13, 2009), available at <http://ia.ita.doc.gov/admanual/2009/Glossary.pdf>.

<sup>103</sup> See generally *id.* (providing cost calculation for imports and exports relating to inventory carrying cost).

<sup>104</sup> See EATON CORP., SUPPLIER EXCELLENCE MANUAL 25 (July 2009), available at [http://www1.eaton.com/suppliers/quality\\_manual/SupplierExcellenceManual.pdf](http://www1.eaton.com/suppliers/quality_manual/SupplierExcellenceManual.pdf).

<sup>105</sup> See generally *id.* at 5 (noting requirements for suppliers regarding product changes and

that flows downhill for us, and we have to be conscious of it and have to be able to manage it in a way where we can reduce cost if the product changes.

Also, expedited freight: In a scenario, for example, where we have product come in from a very long supply chain and there is an issue with that end product, how fast can we replenish it? There is a cost associated with that the longer the supply chain is.<sup>106</sup> So for us, it is very important to truly understand the total cost of ownership from a transportation perspective.

Also, the other things that we look at are communications support; supply maintenance, relationships, phone, travel, and things of that nature. Before you get to production, the cost that goes into the engineering development cycle is enormous, and out of the investment, you have to look at that in the total context of what you are doing from a sourcing perspective and structure an organization and your agreements in order to allow you to manage that. So those are some of the key things when we are talking about sourcing that we are looking at, and I think in this discussion, this freight and transportation piece is very prevalent today.

Let us talk about some of the sourcing considerations from a risk standpoint. Today, in my position, in any company, one of the biggest things that we are looking at is this supply base financial health. In today's economy, it is the simple things like whether your bank that you have been doing business with for the last twenty years is going to extend you credit. What impact could that have in our total supply base? We are doing many extensive things now to truly start to get a handle on the financial health of our supply base.<sup>107</sup> There are tools out there such as DNBi that you can use that actually starts to rate your supplier's financial health.<sup>108</sup> We are doing a lot of work using this data, but that does not get you close enough.

There are a couple of other things that you have to start to take a look at in terms of how we assess the risk and health of our supply base, but also, how do we start to put contingency plans in place. Because a customer of mine does not want to hear about my supplier issues, they have a business that they want to support as well. So we have to be conscious and we have to make sure that we are doing the things that are protecting our end customers.

With these economic risks, as I talked earlier, things are paramount for us from a supply chain standpoint. If you take a look at the way the world is changing continuously, we can do business with a supplier, for example, in

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changes in manufacturing processes).

<sup>106</sup> See generally *id.* at 8 (list of supplier qualification criteria, including on time delivery performance based on a 100% on-time expectation).

<sup>107</sup> See Eaton Corp., Doing Business: Selling to Us, <http://www.eaton.com/EatonCom/OurCompany/DoingBusiness/SellingtoUs/index.htm> (last visited Oct. 16, 2009).

<sup>108</sup> See generally Dun & Bradstreet, Inc., About Us, <http://www.dnbisolutions.com/WhatisDB.aspx> (last visited Oct. 10, 2009) (explaining services that help customers mitigate credit risk).

Peru one year and it is great; and then the next year the economic stability of that country could change, which could force us to need to make a supplier change. In that regard, economic stability of the locations you are sourcing from as well as your overall supply base is very important to us as well, and being able to ensure that you have developed the types of relationships that allow you to manage that are key for us.

Also, natural disasters: These are the types of things that we are thinking about on a daily basis in terms of how do we create a supply chain network that allows us to be able to appropriately manage the risk of having a supply chain disruption. As I mentioned earlier, energy costs. It is big for all of us, and we have operations in Europe.<sup>109</sup> I think you all are probably aware that earlier this year there was an issue where you could not get natural gas down to some of the key locations from Russia.<sup>110</sup> That has a huge impact on your supply chain.<sup>111</sup> You do not necessarily think about it, but we have operations that need gas to be able to provide final products.<sup>112</sup> So in those cases, we have to be aware of how we could potentially have a contingency plan to manage that within our operations.

Also, just pure raw material availability, and ensuring that, one, we can get it, and two, we can get it at the cost that is going to be at an advantage for us. These are some of the key things that we are looking at from a company standpoint. In today's economy, I think one of the big things that we look at, especially around trade, is that you do not want to create a scenario where you are going to drive extensive costs in terms of how you do business. I think it is truly about being as competitive as we can be and realizing where our core competences are in driving industries, companies, and corporations to leverage those as much as possible to deliver the overall value. Thank you very much. I appreciate having the opportunity to speak with you.

MR. SMITH: Thank you very much, Craig. The final speaker today is Jeff Weedman from Procter & Gamble.

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<sup>109</sup> See generally Eaton Corp., Markets: Europe, <http://www.eaton.com/EatonCom/Markets/Europe/index.htm> (last visited Oct. 17, 2009) (overview of Eaton's operations in Europe).

<sup>110</sup> See Andrew E. Kramer, *Russia Cuts Gas, and Europe Shivers*, N.Y. TIMES, Jan. 6, 2009, available at <http://www.nytimes.com/2009/01/07/world/europe/07gazprom.html> (discussing Russia's halt of natural gas supplies to Europe and Ukraine).

<sup>111</sup> See *id.* (noting supply chain problems with delivering energy to consumers as a result of Russia's halt of natural gas supplies).

<sup>112</sup> See generally Eaton Corp., Business Groups, <http://www.eaton.com/EatonCom/OurCompany/AboutUs/BusinessGroups/index.htm> (last visited Oct. 16, 2009) (overview of Eaton's business groups and operations).



## UNITED STATES SPEAKER

*Jeff Weedman*\*

MR. WEEDMAN: Good morning. I am pleased to be here. Having run businesses for Procter & Gamble (P&G) in both the United States and Canada,<sup>113</sup> I can tell you it was a special delight when I found out that I was going to have the opportunity to speak to you today.

I am the Vice President for External Business Development at P&G,<sup>114</sup> and this morning what I want to do with you is have a little trivia and some P&G factoids. I want to talk about the global aspects of innovation. I want to give you a very real life example of the kinds of things that P&G strives to do in terms of sourcing innovation that touches both Canada and the United States externally. For the most part, I am going to have a very forward-looking presentation. I will make a couple of policy comments, but I also want to provide a bit of a call to action on things that perhaps we can do together.

So first, let us start with the trivia. Does anyone have any idea why P&G would bring sushi chefs to a plant that is under construction in Canada? I will let you think on it for a few minutes, and we will get back to it. Most of you probably know P&G, but I want to share our purpose. We provide branded products and services of superior quality and value that improve the lives of the world's consumers.<sup>115</sup> If we do that, it is going to be good for our employees, our shareholders, and the towns and communities in which we live and work.

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\* Jeff Weedman leads an External Business Development (EBD) team of fifty-plus who search the globe identifying open innovation opportunities for Procter & Gamble (P&G). Mr. Weedman's EBD group manages over 1,000 active contracts. The work of Mr. Weedman's group has been featured in more than fifty publications on four continents, including *The Wall Street Journal*, *BusinessWeek*, *Fast Company*, *The Korea Economic Times*, *Axis* (a Japanese design magazine), *Bilan* (Switzerland), *The Financial Times*, and *The Economist*. Mr. Weedman has discussed open innovation live on BBC 4 radio and Bloomberg News Channel. Jeff's EBD group is also active within the Licensing Executives Society.

<sup>113</sup> See Yet2.com, Executive Briefing VII: Speakers, [http://www.yet2.com/app/global/en/html/eb7bio\\_weedman.html](http://www.yet2.com/app/global/en/html/eb7bio_weedman.html) (last visited Oct. 17, 2009).

<sup>114</sup> See *id.*

<sup>115</sup> See PROCTER & GAMBLE, INVESTOR: ANNUAL REPORT 10 (2009), available at [http://annualreport.pg.com/annualreport2009/\\_downloads/PG\\_2009\\_AnnualReport.pdf](http://annualreport.pg.com/annualreport2009/_downloads/PG_2009_AnnualReport.pdf) [hereinafter PROCTER & GAMBLE ANNUAL REPORT].

Now, we really love numbers at P&G. We have three hundred brands.<sup>116</sup> We operate in eighty countries.<sup>117</sup> We have about forty thousand employees,<sup>118</sup> three thousand employees in Canada,<sup>119</sup> and 138,000 total employees.<sup>120</sup> Now, not only do we like numbers, we also like big numbers. We love big brands. We have twenty-three brands worth at least a billion dollars.<sup>121</sup>

Not only do we like big numbers, but also we have a fascination with loving numbers that sometimes goes too far. A couple of years ago, actually in August of 2007, I discovered that internally we had an acronym and abbreviation dictionary. If you look at it, there were actually three thousand six hundred eleven entries as of August 24, 2007. I went back and checked a few days ago, and we are up to four thousand two hundred fifty. Now, for those of you who are financially or numbers oriented, that is a twelve percent annual growth rate. You thought if you worked for the government, you had acronyms. Now that growth rate of twelve percent is a little more than double to triple what we have promised Wall Street that we will deliver, which is four to six percent annual growth.<sup>122</sup>

Our company does nearly eighty billion dollars in sales annually.<sup>123</sup> We are split in three key sectors. What that means practically, is to hit our targets for Wall Street, every week we have to add about a hundred million dollars in net new sales. Now, if you are doing your calculation, you know how much I am behind by taking today and coming up here to Cleveland. How do we do that? Very simply, innovation is our lifeblood. We believe in innovation. It is what has powered us for over one hundred seventy years.<sup>124</sup> Interestingly, Daniel, we started as a candle and soap company.<sup>125</sup> Then this

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<sup>116</sup> See PROCTER & GAMBLE, COMPANY: OUR COMMITMENT, SUSTAINABILITY REPORT 21 (2008), available at [http://www.pg.com/innovatingsustainability/PG\\_2008\\_Sustainability\\_Report.pdf](http://www.pg.com/innovatingsustainability/PG_2008_Sustainability_Report.pdf) [hereinafter PROCTER AND GAMBLE SUSTAINABILITY REPORT].

<sup>117</sup> See PROCTER & GAMBLE, INVESTOR, *supra* note 115, at 31.

<sup>118</sup> See Tradeline Inc., Procter & Gamble Achieving Ambitious Occupancy Goal, <http://www.tradelineinc.com/reports/5D98B718-2B3B-B525-8D98D9E62C0E3C8C> (last visited Nov. 6, 2009).

<sup>119</sup> See PROCTER & GAMBLE SUSTAINABILITY REPORT, *supra* note 116, at 30 (noting number of P&G locations in Canada).

<sup>120</sup> See Procter and Gamble, Company: Who We Are, Global Operations, [http://www.pg.com/company/who\\_we\\_are/index.shtml](http://www.pg.com/company/who_we_are/index.shtml) (last visited Oct. 16, 2009).

<sup>121</sup> See PROCTER & GAMBLE, INVESTOR, *supra* note 115, at 10.

<sup>122</sup> See *id.* at 2 (noting an average, core earnings-per-share growth of twelve percent since 2001).

<sup>123</sup> See *id.* at 34 (noting seventy-nine billion dollars in sales for 2009).

<sup>124</sup> See *id.* at 3.

<sup>125</sup> See PROCTER & GAMBLE, COMPANY: WHO WE ARE, OUR HERITAGE 3 (2007), available at [http://www.pg.com/company/who\\_we\\_are/P&G\\_heritage.pdf](http://www.pg.com/company/who_we_are/P&G_heritage.pdf) [PROCTER & GAMBLE HERITAGE] (stating that P&G started as a small soap and candle company in 1837).

guy, Edison, put us out of business.<sup>126</sup> I want you to know we were back in candles last year. You can now buy Febreze candles from P&G.<sup>127</sup> The life-changing products we have had in innovation included things like the first synthetic detergent,<sup>128</sup> the first fluoride toothpaste,<sup>129</sup> the first disposable diaper.<sup>130</sup> If you go back a couple of years, and the day tends to trail the calendar, but P&G had fully half of the pacesetter innovation products that were listed in 2006.<sup>131</sup>

It is not by accident we spend \$2.2 billion a year in innovation.<sup>132</sup> We have nine thousand scientists.<sup>133</sup> Our innovation is global. We have offices in eighty countries.<sup>134</sup> Products, as I said, sold in one hundred sixty countries.<sup>135</sup> We have twenty-two research centers scattered around the globe in twelve countries on four different continents.<sup>136</sup> Our researchers come from over seventy different countries the last time we checked.<sup>137</sup> We have one hundred fifty-two manufacturing facilities,<sup>138</sup> thirty-six in the United States,<sup>139</sup> eight in Mexico,<sup>140</sup> and two in Canada.<sup>141</sup>

I have to tell you, for one hundred sixty years, traditionally our success resulted primarily from us doing it by ourselves.<sup>142</sup> We did our own work. We did our own research. We found our own patents. We were proud of what we were able to do, and it was pretty successful. At that time, we tried to invent it all; we manufactured it. There was probably a level of arrogance that we were smarter than the other organizations. The world has a way of

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<sup>126</sup> See generally Thomas Alva Edison, <http://www.thomasedison.com/index.html> (last visited Oct. 16, 2009) (noting Edison's invention of the light bulb in 1879).

<sup>127</sup> See Procter & Gamble, Products, [http://www.pg.com/company/who\\_we\\_are/global\\_products.shtml](http://www.pg.com/company/who_we_are/global_products.shtml) (last visited Oct. 16, 2009).

<sup>128</sup> See PROCTER & GAMBLE HERITAGE, *supra* note 125, at 6 (noting the introduction of Tide, the "washday miracle," in 1946).

<sup>129</sup> See *id.* (Crest toothpaste in 1955).

<sup>130</sup> See *id.* (the first successful disposable diaper in 1961).

<sup>131</sup> See generally PROCTER & GAMBLE ANNUAL REPORT, *supra* note 115, at 10 (noting that over the past 14 years, P&G has had 114 top-25 IRI non-food Pacesetters).

<sup>132</sup> See *id.* (noting that P&G invests more than two billion dollars in innovation annually).

<sup>133</sup> See Procter and Gamble, R&D's Formula for Success, [http://www.pg.com/science/rd\\_formula\\_success.shtml](http://www.pg.com/science/rd_formula_success.shtml) (last visited Oct. 16, 2009).

<sup>134</sup> See PROCTER & GAMBLE ANNUAL REPORT, *supra* note 115, at 31.

<sup>135</sup> See Procter and Gamble, Company: Who We Are, Global Operations, *supra* note 120.

<sup>136</sup> See Procter and Gamble, R&D's Formula For Success, *supra* note 133 (noting 22 research centers in 12 countries).

<sup>137</sup> See *id.* (citing researchers from 71 countries).

<sup>138</sup> See PROCTER AND GAMBLE SUSTAINABILITY REPORT, *supra* note 116, at 33.

<sup>139</sup> See *id.* at 31, 32.

<sup>140</sup> See *id.* at 31.

<sup>141</sup> See *id.* at 30.

<sup>142</sup> See Procter and Gamble, About Connect + Develop, [https://www.pgconnectdevelop.com/pg-connection-portal/ctx/noauth/0\\_0\\_1\\_4\\_83\\_4\\_3.do](https://www.pgconnectdevelop.com/pg-connection-portal/ctx/noauth/0_0_1_4_83_4_3.do) [hereinafter Procter & Gamble Connect + Develop] (last visited Oct. 17, 2009).

humbling people, and things really changed. New markets opened: Eastern Europe, China, the rest of Asia.<sup>143</sup> The internet allowed connections that people we would never be able to contact are simply a mouse-click away.<sup>144</sup> Innovations that are occurring around the globe are all of a sudden very accessible if you have the proclivity and interest to go look.

One of the things I looked at in our first 160-some years: we have operated in forty-four countries.<sup>145</sup> Since 1991, we have added another thirty-six countries.<sup>146</sup> To compete and be global, the world had changed, and doing it ourselves was simply no longer feasible. So we embarked on an open innovation program.<sup>147</sup> P&G is a company of brands, so we called ours Connect + Develop.<sup>148</sup> Our CEO at the time made a very bold statement; he said we are going to acquire fifty percent of our innovations from outside of P&G.<sup>149</sup>

Now, that does not sound very bold unless you have lived for 160 years of doing it yourself. When we assessed what we were doing, less than ten percent of our innovations really had sourcing material innovation from outside of P&G.<sup>150</sup>

The kinds of things that we were interested in were licensing new technologies that come from researchers, scientists, and inventors from around the world that we can put into our products. We were interested in accessing technologies, not just for our products, but in how we operate as a business.

We also brought in fully-cooked technologies, full products that we did not invent but other people had that maybe were constrained by their global footprint, the capabilities in terms of running our businesses more effectively.<sup>151</sup> For example, we no longer manage our own buildings.<sup>152</sup> I mean, what do we know about managing buildings? We found people who can do that better than we can for whom it is a core business proposition.

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<sup>143</sup> See PROCTER & GAMBLE SUSTAINABILITY REPORT, *supra* note 116, at 28.

<sup>144</sup> See generally Procter & Gamble, [http://www.pg.com/en\\_US/index.shtml](http://www.pg.com/en_US/index.shtml) (last visited Oct. 16, 2009).

<sup>145</sup> See PROCTER & GAMBLE SUSTAINABILITY REPORT, *supra* note 116, at 18, 19 (outlining the growth and expansion of P&G over the past 50 years).

<sup>146</sup> See *id.*

<sup>147</sup> See generally Procter & Gamble, Connect + Develop, *supra* note 142 (providing overview to P&G's open innovation program).

<sup>148</sup> See *id.*

<sup>149</sup> See James Joia, *Connect + Develop with Procter & Gamble*, INNOVATIONMANAGEMENT.SE, [http://www.innovationmanagement.se/index.php?option=com\\_content&view=article&id=229:connect-develop-with-procter-a-gamble&catid=140:all-articles&Itemid=289](http://www.innovationmanagement.se/index.php?option=com_content&view=article&id=229:connect-develop-with-procter-a-gamble&catid=140:all-articles&Itemid=289) (last visited Jan. 27, 2010).

<sup>150</sup> See generally Procter & Gamble Connect + Develop, *supra* note 142 (noting that historically P&G had relied on internal sources for innovations).

<sup>151</sup> See *id.*

<sup>152</sup> See *id.*

Taking products that are geographically locked in small countries but are great and creative, and taking advantage of P&G's global footprint are things that we looked at and said we can access externally. However, if you are going to reach externally, we have learned that you have to be both proactive and reactive. Now, the proactive piece is the one that I am frankly most excited about because we are always looking for networks. We know many of the things we need. How do you find those? How do you find companies that have capabilities and technologies that can help us solve our needs so that we can delight our consumers?

We have learned that you cannot just do that on the Internet. It is networking, identifying people, governments, and businesses that can actually provide access to the innovation that is going on in their local consumer. It is about relationships.

Also, I woke up one day and realized I had gone on vacation, and I had been assigned responsibility for handling unsolicited submissions to P&G. For those of you who are in the legal business, you know that unsolicited ideas generally have a negative value. They do not just break even because they are more trouble than they are worth. We have tried to turn that on its head, and we now have a website where people can actually find us.<sup>153</sup> We had almost 4,000 submissions over the last year,<sup>154</sup> and we have projects underway in each of our key businesses that came in unsolicited.<sup>155</sup>

Now, I still have some problems. Our presumption was that there is only innovation done in English. We do not have our French-speaking network up yet, but in the last week we have launched our Japanese and Chinese versions of those,<sup>156</sup> and they are already generating leads for us. Over fifty percent of our products have a component that is sourced externally.<sup>157</sup> That is up from the ten percent, many contracts underway.<sup>158</sup> We are doing about half a billion in sales that is powered by other people's technologies inside of P&G,<sup>159</sup> and P&G technologies and brands are powering almost three billion dollars in our partner sales globally.<sup>160</sup>

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<sup>153</sup> *See id.*

<sup>154</sup> *See id.*

<sup>155</sup> *See id.*

<sup>156</sup> *See id.*

<sup>157</sup> *See* PROCTER & GAMBLE, DESIGNED TO LEAD: 2009 ANNUAL REPORT 3 (2009), available at [http://www.pg.com/content/pdf/home/PG\\_2009\\_AnnualReport.pdf](http://www.pg.com/content/pdf/home/PG_2009_AnnualReport.pdf) ("More than half of all product innovation coming from P&G today includes at least one major component from an external partner.").

<sup>158</sup> *See* Procter & Gamble Connect + Develop, *supra* note 142 (noting that P&G currently has over 1,000 active agreements through Connect + Develop).

<sup>159</sup> *See id.*

<sup>160</sup> *See id.*

Let me give you a quick example. How many of you ever heard of the brand Swiffer? How many of you actually use it? A technology scout in Japan actually found the Swiffer duster.<sup>161</sup> That is the one with the little wand. We had developed Swiffer mitts;<sup>162</sup> it was a real ugly thing. The guy that was running our Research and Development (R&D) organization said, “what I really want is this duster thing.” It was actually a competitor of ours. By striking a deal with that competitor in Japan, we were able to have those on the market in less than eighteen months.<sup>163</sup> What Unicharm had is a product, advertising, and manufacturing. What we had was royalties. They actually manufactured the products that allowed us to introduce the product to our labels. We are the world's largest advertiser.<sup>164</sup> We are pretty proud of our advertising; we actually used their advertising to introduce the product.<sup>165</sup> Let me show you a little snippet of that commercial. Like the high technology, eh? We used their advertising to introduce it.

Now, remember that trivia question about sushi chefs? Well, as it turned out, when we built enough business in the United States and Canada to actually build a manufacturing facility here, Unicharm engineers came over and helped us build a plant.<sup>166</sup> We were building it in Brockville, Canada,<sup>167</sup> but those engineers were a little depressed with the Japanese cuisine in Brockville, Ontario. It is a true story. So we made sure we brought in sushi chefs from Toronto to keep them happy.

So how can governments help us? I am going to make a policy comment and a practice comment. First are government policies. The United States government is considering elimination of the tax deferral on foreign earned income.<sup>168</sup> Our CEO, A.G. Lafley, published an editorial within the past week that talked about the unintended consequence of this.<sup>169</sup> In the United

<sup>161</sup> See Deborah Ancona et al., *X-Teams: New Ways of Leading in a New World*, IVEY BUSINESS JOURNAL, Sept./Oct. 2008, [http://www.iveybusinessjournal.com/article.asp?intArticle\\_ID=784](http://www.iveybusinessjournal.com/article.asp?intArticle_ID=784) (explaining that Swiffer dusters developed from a collaboration between P&G and a Japanese competitor).

<sup>162</sup> See generally Procter and Gamble, Swiffer, [http://swiffer.com/en\\_US/dusting.do](http://swiffer.com/en_US/dusting.do) (last visited Oct. 23, 2009).

<sup>163</sup> See Ancona et al., *supra* note 161.

<sup>164</sup> See PROCTER & GAMBLE, CONNECT + DEVELOP 6 (2008), available at [https://www.pgconnectdevelop.com/pg-connection-portal/static/external/files/cd\\_brochureWEB.pdf](https://www.pgconnectdevelop.com/pg-connection-portal/static/external/files/cd_brochureWEB.pdf) [hereinafter PROCTOR & GAMBLE CONNECT + DEVELOP REPORT].

<sup>165</sup> See generally *id.*

<sup>166</sup> See generally Procter and Gamble, Canada, Company, [http://www.pg.com/en\\_CA/company/who\\_we\\_are/history.shtml](http://www.pg.com/en_CA/company/who_we_are/history.shtml) (last visited Oct. 21, 2009) (noting history of P&G in Canada).

<sup>167</sup> See *id.* (noting Brockville plant opened in 1980 to manufacture Tide and Bounce).

<sup>168</sup> See generally John D. McKinnon, *President's Tax Proposal Riles Business*, WALL ST. J., May 5, 2009, at A3, available at <http://online.wsj.com/article/SB124144387757983265.html> (discussing the proposed elimination of the tax deferral on income earned abroad).

<sup>169</sup> See The Associated Press, *Head of P & G Blasts Obama Tax Proposal*, MSNBC, Mar.

States we already have the second highest corporate tax rate of any country in the world.<sup>170</sup> Fundamentally, if this were to become law, we would be noncompetitive. Our competitors around the globe do not have the same kind of investment in taxes.<sup>171</sup> That will result in less R&D and less innovation for us. Now, why should you care about all this? Importantly, we believe global collaboration on innovation leads to new products. It leads to new manufacturing. It leads to new jobs. Global open innovation is an asset to the global and United States economies.

I am going to talk specifically about practices because change in policy, law, and the politics is pretty big. There are practical things that we can do to improve cross-border business development. We have people, trade missions. Our countries send trade missions to the various countries and things like that.<sup>172</sup> I can tell you there are not enough trade missions to corporations. We have had several companies come to us, including in Canada, saying, "what can we do to help you?" Frankly, we are not doing enough of that. We need trade missions to corporations. Many government entities have incubators and things like that.<sup>173</sup> We need to find ways to do the asymmetrical, hook up innovation with big companies. We think it is possible for us to work very effectively with other companies in Canada and the United States. We simply have to do a better job of understanding what is going on. How do we find those? How do we share our needs and their opportunities?

In summary, free trade, we believe, helps open innovation. Open innovation means growth. P&G can help you. We love to do business with more companies, more start-ups. We think you can help P&G by hooking us up to networks.

Now, as the world's largest advertiser,<sup>174</sup> I would be incredibly punished if I did not make sure that I practice what I preach. We actually have a needs list. You can go to [pgconnectdevelop.com](http://pgconnectdevelop.com) and see it,<sup>175</sup> but Canada has incredible natural resources and technology, as does the United States.<sup>176</sup> This is a need that we are looking for today. If you know companies that have it, you know you can reach me. Thank you.

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30, 2009, <http://www.msnbc.msn.com/id/29960067/wid/7468326>.

<sup>170</sup> See Organisation for Economic Co-Operation and Development, <http://www.oecd.org/dataoecd/26/56/33717459.xls> (last visited Oct. 21, 2009) (table comparing the United States' state corporate taxes to the OECD).

<sup>171</sup> See *id.*

<sup>172</sup> See Export.gov, About Trade Missions, <http://www.export.gov/fas/fas.asp?pName=tm> (last visited Oct. 23, 2009).

<sup>173</sup> See *id.*

<sup>174</sup> See PROCTER & GAMBLE, CONNECT + DEVELOP REPORT, *supra* note 164.

<sup>175</sup> See Procter & Gamble, Connect + Develop, *supra* note 142.

<sup>176</sup> See Procter and Gamble, Canada, *supra* note 166.

DISCUSSION FOLLOWING THE REMARKS OF DANIEL  
DESJARDINS, CRAIG REED, AND JEFF WEEDMAN

MR. SMITH: As a resident in the far outskirts of Brockville and a member of the Brockville Yacht Club,<sup>177</sup> I am glad to know that I can look around for Japanese cuisine now in Brockville. Thank you very much, Jeff, for that presentation. The floor is open for questions to our panel.

MR. TENNANT: John Tennant. Craig, if we could probe a little deeper in terms of actual practice over the last say five or six years. Within Eaton, has the Canada-United States border influenced any purchasing, investment decisions that you are aware of because it works or it does not work?

Then more broadly, is Eaton one of those companies that has ended up judging that some of the risks that you described are such that you have pulled back somewhat in terms of a rush to global sourcing? Could you speak a bit more about Eaton's experience in terms of sourcing?

MR. REED: Sure. And I cannot go back six years; I have not been with the company that long. However, probably somewhat fundamentally at a high level, I will start in reverse.

From a sourcing perspective, if you look at it in terms of managing risk, the closer we get to home in our manufacturing facilities where the bulk of them, we have a large footprint here in North America, I think it is just over seventy manufacturing facilities,<sup>178</sup> the risk basically goes down dramatically. Us being able to manage it from a transportation perspective because we can get to it relatively easily, we have good relationships in terms of border and trade and things of that nature. So for us, in terms of Canada, we do not look at Canada in the context of being a risky country in terms of us doing business.

As a corporation, we have actually started to look at the way that we have been structured holistically in terms of being able to manage ourselves to truly be able to take advantage of markets from a regional perspective. For us, we have somewhat defined the Americas region as Canada, United States, Mexico, and all of Latin America. For us, we are looking at how we can take advantage of the entire region.

So we are not looking at it as a kind of United States-specific scenario from that regard. From a global sourcing standpoint, I think one of the key things for us is that we have not started to pull back in terms of what we have been doing because our manufacturing footprint has started to grow, and our

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<sup>177</sup> See generally Brockville Yacht Club, <http://www.brockvilleyachtclub.com> (last visited Oct. 23, 2009).

<sup>178</sup> See generally Eaton Corp., Markets, North America, <http://www.eaton.com/EatonCom/Markets/NorthAmerica/index.htm> (last visited Oct. 23, 2009) (overview of North American presence and list of sales and distributor contacts).



customers are basically global now. So we need to be where our customers are. As a result, we may be more selective in terms of where we locate and where we source globally.

As an example, we have a very large operation in Europe, a very large business in Europe, and we are very west-centric.<sup>179</sup> We have been looking at opportunities to go east in Europe because we know that is where we have a lot of economical advantage in terms of sourcing.<sup>180</sup> However, based on the economies, we make choices and decisions based on the capabilities of the individuals that essentially are going to be doing the work for us as well as how stable those economies are. We look at things in terms of trade technical capabilities, and the overall supply chain and risk. So it is very selective, and we are not pulling back, but we are really starting to look at how we manage the global portfolio of where we source.

MR. DESJARDINS: I would like to add something to that, and I fully agree with your comments. Because of lack of time, I did not talk about the Lear 85. The Lear 85 is a new aircraft program that we have launched which will be driven by many innovations.<sup>181</sup> Also, our new C Series aircraft program will be over three billion dollars in money spent developing this aircraft.<sup>182</sup> New technology as I said, wings and fuselage, and all of this is basically done in North America except the wings that will be done in the United Kingdom.<sup>183</sup> Lear 85 will be an all-composite aircraft and will enter into service in 2013.<sup>184</sup> The largest all-composite business aircraft ever built.<sup>185</sup> So highly innovative, lots of technology and know-how.

We were really questioning ourselves where we should base this new platform. With that comes the engineering jobs and local investments. Ultimately, we decided to go to Wichita, not Canada.<sup>186</sup> One of the reasons for that is because we believe in open borders between our two countries. If we would have believed otherwise, we would have made the investment somewhere else.

Now, we also look at the global footprint the same way as Greg; our footprint is global and our clients are local. More and more also, we are looking at sourcing from a local point of view. We have just opened a new plant in

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<sup>179</sup> See Eaton Corp., Markets, Europe, *supra* note 109.

<sup>180</sup> See *id.*

<sup>181</sup> See generally Bombardier, Inc., Learjet 85, <http://www.learjet85.com/en/news/articles/Right-on-Schedule.html> (last visited Oct. 22, 2009) (noting innovations of the Learjet 85).

<sup>182</sup> See Bombardier Inc., Aerospace: Commercial Aircraft, C Series, *supra* note 56.

<sup>183</sup> See *id.*

<sup>184</sup> See Bombardier, Inc., Learjet 85, *supra* note 181 (noting Learjet 85 is on schedule to be released in 2013).

<sup>185</sup> See *id.*

<sup>186</sup> See BOMBARDIER, ABOUT US: WORLDWIDE PRESENCE, *supra* note 9 (noting key Learjet manufacturing plant located in Wichita).

India.<sup>187</sup> We are the first foreign rail manufacturer opening a plant in India because we had the large order and were able to afford to build a new plant.<sup>188</sup> The sourcing we are going to do from that plant is going to be very local to serve the local needs. Same thing in China. We have created a manufacturing footprint in China for the rail industry ten years ago.<sup>189</sup> So supply chain is important, but at the same time the footprint is critical because of freight and proximity issues.

MR. SMITH: Other questions? Right at the very back.

MR. DORCHAK: Andy Dorchak from Case Western Reserve University. There has been a push for green collar jobs, environmental jobs, in the United States, are there business opportunities and potential increased energy costs? Do you have any lessons learned from Europe?

MR. DESJARDINS: Well, energy cost is obviously an issue for us, first, from a manufacturing point of view and secondly, from a product perspective. For example, new trains will use less energy, will become more efficient, and they are more lightweight.<sup>190</sup> We also have to look at the supply chain, sustainability and the environmental footprint of our products. Also, energy is important to us in our footprint. We use and consume energy in our manufacturing process and energy saving measures will become more important when you consider the cap and trade in Europe and the fact that it will be coming to the United States and Canada pretty soon, I think. So those are our issues also we need to manage, but I must say that North America is behind Europe in that respect for sure.

MR. SMITH: Another question over here.

MR. FELDMAN: Thank you. I am Elliot Feldman. My question is also for Daniel. Could you be more precise about how you are impacted by the Buy American provisions? The new President of the United States seems to like trains.

MR. DESJARDINS: As I said, we live by the Buy America Act in the United States.<sup>191</sup> My only point is that when we are competing here in the United States, there are competitors that we see in the world stage that are

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<sup>187</sup> See BOMBARDIER, INC., WORLDWIDE PRESENCE, INDIA 3 (2008), available at [http://www.bombardier.com/files/en/supporting\\_docs/BT-India.pdf](http://www.bombardier.com/files/en/supporting_docs/BT-India.pdf) (discussing the opening of a transportation manufacturing facility in India).

<sup>188</sup> See *id.* (noting the transportation manufacturing plant is the first of its kind).

<sup>189</sup> See BOMBARDIER, INC., WORLDWIDE PRESENCE, CHINA (2007), [http://www.bombardier.com/files/en/supporting\\_docs/Bombardier\\_in\\_China\\_09\\_2007\\_LR\\_en.pdf](http://www.bombardier.com/files/en/supporting_docs/Bombardier_in_China_09_2007_LR_en.pdf) (discussing establishment of significant manufacturing ability in China).

<sup>190</sup> See Bombardier Inc., Transportation, Rail Vehicles, <http://www.bombardier.com/en/transportation/products-services/rail-vehicles?docID=0901260d8000a52b> (last visited Oct. 23, 2009) (explaining that innovations in train manufacturing will result in lower costs and higher efficiency).

<sup>191</sup> See generally Department of Foreign Affairs and International Trade Canada, *supra* note 60 (noting impact of the Buy America Act on Canadian companies).

competing against us in Europe, in China, in India, but that are not competing against us in the United States. So protectionism has an effect on competition.<sup>192</sup> If you look at the other side of the coin, look at aerospace business. It is built on total free trade.<sup>193</sup> With that total free trade, as I say, we were able to build in North America two of the largest worldwide civil aircraft manufacturers.<sup>194</sup> There is a lot of merit to free trade.

MR. SMITH: Thank you. May I on your behalf thank our panel for that excellent discussion which follows on I thought very logically the counterpoint of the discussion we had first thing this morning. You are seeing the practicalities, interdependence, and interrelationship of these various industries, and I thank you all very much for your contribution.

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<sup>192</sup> See generally *id.* (noting the negative effects the Buy America Act can have on foreign companies).

<sup>193</sup> See Bombardier Inc., Aerospace, *supra* note 20 (noting Bombardier's worldwide presence in the Aerospace industry).

<sup>194</sup> See INDUSTRY WEEK, *supra* note 57.