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SMAC Legislative Report

Of CALIFORNIA

News from the Small Manufacturers Association of California

A compilation of news and commentary on the recent actions of California Legislators and bureaucrats in Sacramento

AEROSPACE MANUFACTURERS' MASSIVE BACKLOG AND LACK OF SKILLED WORKERS LEADING TO AUTOMATION

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Boeing vice chair, president and CEO Dennis Muilenburg

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April 22, 2015 Orange County Register Editorial

By Tom Martin
SMAC Executive Director
& Legislative Chairman

Aerospace manufacturers are bursting at the seams with a backlog of orders, according to Austin Weber, senior editor of Assembly Magazine. To address that dilemma, Weber reports, they need to automate their factories. The industry is investing heavily in flexible systems that reduce cost, improve quality and boost productivity.

Manufacturers involved in the commercial airliner sector are leading the charge by adopting robots, automated guided vehicles and other technology to solve capacity constraints.

ON TRACK TO BUILD 900 AIRCRAFT

Aerospace production volumes have been increasing steadily over the last three years. For instance, Boeing Commercial Airplanes built 723 airliners in 2014 vs. 648 in 2013 and 601 in 2012. This year, the company is on track to produce 900 aircraft.

Boeing is in an enviable position. It's currently sitting atop a huge backlog for airliners such as the 737MAX, 777X and 787 Dreamliner. In fact, the aerospace giant currently has more than 5,700 aircraft on order, valued at more than \$450 billion.

Within the next three years, Boeing has ambitious plans to increase production of its popular narrow-body, single-aisle 737 jet from 42 aircraft a month to 52. And, the company hopes to slowly ramp up production

volume on the more technically complex 787 to 12 planes per month by 2016 and 14 per month by 2020.

Boeing's archrival, Airbus, also plans to boost output of its most popular airplane, the A320. By 2018, the European company expects to raise production rates from 42 planes a month to 50 units. Its new \$600 million assembly line in Mobile, AL, which is scheduled to open later this year, will play a major role in meeting that goal.

Airbus eventually plans to crank up A320 production to 60 planes a month at its factories in China, France, Germany and the United States. That kind of production volume would be unprecedented in the commercial aerospace industry.

Assembly lines at major suppliers, such as GE Aviation, Honeywell, Rockwell Collins, Spirit AeroSystems and UTC Aerospace Systems, are also humming with increased activity. As a result, aerospace engineers are searching for new ways to improve throughput while maintaining strict quality standards. Investing in automation is now considered a necessity, rather than an option.

AEROSPACE ENGINEERS SEEKING NEW WAYS

Pratt & Whitney is investing \$1 billion worldwide to prepare its factories for jet engine production increases. It recently benchmarked several automotive manufacturers and revamped its 58-year-old Middletown, CT, plant. The facility now features an overhead horizontal moving assembly line that will produce the PurePower PW1100G-JM engine for the Airbus A320neo.

"The new assembly system offers revolutionary benefits in increased production volume," according to Joe Sylvestro, vice president of manufacturing operations at Pratt & Whitney. "[And, it provides] ergonomic benefits for the assembly teams working on the engines. [Assemblers] can adjust the engine up and down to their ideal work height, and can rotate the engine to help with difficult to reach areas. The new line is also safer, because ladders and platforms have been fully eliminated, and there is no perching under the engines, bending, stooping and climbing."

"The horizontal assembly system has both vertical lift and rotation capability," adds Tom Mayes, general

manager of engine centers and compression module centers at Pratt & Whitney. "It is also programmable, so [engineers] can automate the line depending on volume and move the carriage systems at the rate of output to adjust for customer demand."

Boeing plans to invest more than \$1 billion in automation over the next few years to boost production at its assembly plants. Most of that money will be allocated to state-of-the-art robots for drilling, fastener insertion, riveting, sealing, coating and painting applications, in addition to material handling, carbon-fiber layup and machining operations, such as deburring and shot peening.

Weber reported automation is attractive to Boeing for several reasons. For instance, its main assembly line in Everett, WA, is located in a region with a highly skilled workforce. This provides some protection against technology and production delays, but skilled labor comes at a high cost.

On the other hand, Boeing's newer factory in North Charleston, SC, is located in a region with no historic aerospace workforce. Some skilled people were relocated to the area to implement and operate automation that does some of the jobs done manually on the Everett line.

Because production rates and staffing are not equivalent, the jury is still out on which production method is superior. The large scale and reduced tolerances for lower weight do not allow manual assembly in all areas.

In this instance, Boeing engineers are opting for automated assembly. According to one observer, this optimization can go so far as to eliminate the ability to produce the parts manually.

AUTOMATION CURES EMPLOYEE ABSENTEEISM

An additional issue that influences automation allocation is assembler reliability. Boeing can effectively build the 787 with manual labor, argues the observer, but not on days when people perform poorly or fail to show up for work. There are also repetitive jobs with ergonomic risks that can be addressed through automation.

During his keynote speech at last year's AeroDef Manufacturing Summit in Long Beach, CA, Gerould Young, director of materials and manufacturing technology at Boeing Research & Technology, outlined how automation will play a key role in the company's future, Weber reported.

"Automation can improve our cost, quality and production rates," claims Young, who heads a team of 1,000 engineers who are developing next-generation materials and production processes for a wide variety of current and future Boeing products.

According to Young, Boeing is moving toward agile systems that feature "an integrated family of robots, low-cost intelligent systems and lightweight flexible equipment." However, he warned that numerous challenges still face his team.

For example, Boeing engineers are exploring new applications for robotic riveting. "Replacing human riveting personnel with dual-robotic systems is challenging," explains Young. "A tremendous amount of knowledge and data is required to automate riveting."

Young claims that Boeing is migrating toward automated factories that feature "miniaturization, multiple end effectors, multiple robots, and a computer-intense system with a lot of intelligence built-in."

"Aerospace automation is not easy," said Young. "We're learning from the auto industry. At the same time, we're trying to attack the challenges [that are unique to] aerospace."

"Scale, complexity and structural integration make automation challenging for fabrication processes," Young points out. "Automation optimization for capital costs, rate and number of units has a learning curve. New skills in simulation, sensors, data, computers, integration and robotics will be required to transform our factories for the future."

FEDS REPORT MANUFACTURING LABOR PRODUCTIVITY INCREASED 77 PERCENT

The Bureau of Labor Statistics announced April 28, that Labor productivity rose in 77 percent of the 57 detailed manufacturing industries and 3 of the 4 detailed mining industries covered in 2014. Output and hours increased in more industries in 2014 than in the previous year.

The latest Productivity and Costs by Industry: Manufacturing Industries news release has been posted on the BLS website at <http://www.bls.gov/news.release/pdf/prin.pdf> And also archived at http://www.bls.gov/news.release/archives/prin_04282015.pdf.

THREE CALIFORNIA EMPLOYERS AMONG BOEING 'SUPPLIERS OF THE YEAR'

Boeing has honored 14 companies, including two from California, and one California University with its 2014 Supplier of the Year awards, recognizing their superior performance in delivering high-quality products and services on time and at the promised cost.

The California Companies are Anodyne, Inc., headquartered in Santa Ana and Avis Budget Group, based in San Francisco. The university is California Institute of Technology (CALTECH) in Pasadena,

Strong performance and close collaboration with these award-winning suppliers helped Boeing exceed customers' more-for-less expectations while also contributing to Boeing's record \$90.8 billion in revenue in 2014, said Kent Fisher, Boeing's leader for Supplier Management.

Each year Boeing recognizes its top-performing suppliers from around the world. Winning organizations are selected based on criteria that include quality of their products or services and the value they create for Boeing and its global airline, U.S. and allied government customers.

In January, Avis Budget Group was notified that it was one of 548 companies to receive the Boeing Performance Excellence Award. Achieving the Supplier of the Year designation further acknowledges superior performance and labels this class of winners as best of the best.

Anodyne is a leading aerospace company, founded in 1956, focused on metal finishing in both the commercial and military sectors. Anodyne has a reputation as an industry leader in innovation, unparalleled quality, in engineering and metal finishing; its diverse service offerings include anodizing, plating, painting, and testing.

Anodyne employs more than 70 people with an average tenure of 15 years. By training and retaining a talented and diverse workforce, an Anodyne spokesman said they can engineer and deliver solutions across a wide range of needs that exceed all customer expectations.

"The Boeing Company's success in 2014 was due in large part to the strong performance of our supply chain," Fisher said. "We are facing an increasingly competitive landscape across all our businesses."

'PARTNERSHIPS WITH OUR SUPPLIERS'

"Strong partnerships with our suppliers can make a difference between winning and losing customers and competitions, or determining the success of a development program," said Boeing vice chairman, president and chief operating officer Dennis Muilenburg. "The best suppliers – like the ones recognized with the Supplier of the Year Award – operate as partners and differentiate themselves, and Boeing, from the competition through close collaboration and a relentless commitment to first-time quality, on-time delivery and affordability."

In 2014, Boeing spent \$62 billion with more than 13,000 suppliers from 47 countries. Supplier-provided components and assemblies make up more than 60 percent of the cost of Boeing products. Suppliers also played a key role for Boeing last year, enabling Boeing Defense, Space & Security to win significant new

contracts and helping Boeing Commercial Airplanes set an industry record for deliveries in a single year.

KNOW THE LAW

NEW NLRB WORKPLACE ELECTION RULES EFFECTIVE APRIL 14, 2015

The Obama appointed National Labor Relations Board ("NLRB") has changed election rules, altering a process that has existed for years, according to Atkinson, Andelson, Loya, Ruud & Romo partner Thomas Lenz.

Because the rule changes became effective April 14, unions waited until that date or later to file election petitions. Non-union employers should take steps to understand the new rules and be prepared to respond, if challenged, the labor attorney said.

The NLRB rules say "When the petitioner files its petition, it will be required to simultaneously serve a copy of the petition, along with a more detailed Agency description of representation case procedures and an Agency Statement of Position form, on all parties identified in its petition in order to provide them with the earliest possible notice of the filing of the petition and Board procedures for processing those petitions. NLRB regional offices will serve a Notice of Hearing and a Notice of Petition for Election (along with a copy of the petition, description of representation case procedures and the Statement of Position form) on all parties.

"The non-petitioning parties will be required to respond to the petition (generally the day before the hearing opens) by filing with the regional director and serving on the other parties a Statement of Position identifying the issues they have with the petition.

EMPLOYERS MUST PROVIDE LIST OF VOTERS

As part of its Statement of Position, the employer will be required to provide all other parties with a list of prospective voters, their job classifications, shifts and work locations."

Under the new rules, the NLRB will require posting of a notice to employees within two days of an election petition.

The NLRB said, "The employer is required to post a Notice of Petition for Election containing more detailed information on the filing of the petition and employee rights within two business days of the region's service of the petition. The Notice of Election will provide prospective voters with more detailed information about the election and the voting process."

According to AALRR Attorney Lenz, "Employers must provide a statement of position within seven days of the filing of an election petition. The statement must provide significant information on the company and its

position. Failure to file a statement in timely fashion may preclude the company from raising issues in litigation related to the election.

“The NLRB will hold a hearing on the eighth day after an election petition is filed unless the parties have agreed on election terms. If a hearing is held, the local NLRB director will have authority to determine the date, time, and place for employees to vote.

“Once election arrangements are made, employers will have a tight timeframe in which to provide a list of voters along with each listed employee’s home address, email address, home phone number, and cell phone number.

“A union wins or loses the election depending on whether it has received a majority of the valid votes cast. The election timeframe will be compressed compared to earlier rules, going from a range of 35-42 days under most recent guidelines to what is expected to be about 20-25 days. NLRB officials have stated that it would be possible for a union to waive certain legal requirements and to have an election in as little as three days from the day an election petition is filed.

“Employers’ rights to discuss these issues in litigation, before or after election, will be more limited than under prior rules.”

Lenz said it will be critical for employers to know their rights, to designate their management teams, and to educate both supervisors and employees on the new law and process.

Thomas Lenz is a partner in the AALRR Cerritos office and heads the firm’s Traditional Labor Law Department. He has practical experience to advice, training, and representation of employers in unfair labor practice cases, representation election cases, union organizing campaigns including corporate campaigns and salting, collective bargaining, picketing, strikes, and related litigation. He is available for questions and can be reached at 562-653-3200 or tlenz@aalrr.com.

CALIFORNIA FACING LOSS OF FEDERAL FUNDING FOR COVERED CALIFORNIA

In an April 22 Editorial, the Orange County Register writes, “After two previous extensions, the open enrollment period for Covered California ends April 30. That deadline just might prove to be the tipping point for the state’s two-year-old health insurance exchange.

“That’s because this is the year Covered California is supposed to become completely self-sustaining.

Indeed, there’s no more money coming from Washington after the state exhausts the \$1.1 billion it received from the federal government to get the Obamacare exchange up and running. And state law prohibits Sacramento from spending any money to keep the exchange afloat.

“That presents an existential crisis for Covered California, which is facing a nearly \$80 million budget deficit for its 2015-16 fiscal year. Although the exchange is setting aside \$200 million to cover its near-term deficit, Covered California Executive Director Peter Lee acknowledged in December that there are questions about the “long-term sustainability of the organization.”

“Mr. Lee’s disquieting assessment actually jibed with a 2013 report by the state auditor, which stated that, until the state’s health insurance exchange actually started enrolling Californians in health plans, its “future solvency” was “uncertain.” Thus, Covered California was listed as a “high-risk” issue for the state.

“The state auditor’s warning appeared prescient as of Feb. 15, which was supposed to be the close of open enrollment for 2015: Covered California had fallen 300,000 enrollees short of the goal set by Mr. Lee and the agency’s board of directors.

COVERED CALIFORNIA ENROLLMENT GREW 1%

“Indeed, Covered California’s enrollment growth for 2015 was a mere 1 percent, according to a study this month by Avalere Health. That was worst than all but two other state exchanges. Meanwhile, California’s Obamacare exchange managed to retain only 65 percent of previous enrollees, the nation’s fourth-lowest re-enrollment rate.

“We look forward to (the final April 30) enrollment numbers from Covered California; to see if there is another near-miraculous, 11th-hour spike in enrollments enabling Mr. Lee to claim a successful enrollment period (and for opinion writers around the country to once again hail California as prima facie evidence that Obamacare is working).

“But there’s no getting around Covered California’s balance sheet. If it continues to run yearly operating deficits, it will not long survive,” the Register Editorial concluded.

Thanks and a tip of the hat to:

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If emailing please list
SMAC Newsletter in the subject

