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NATIONAL ASSOCIATION OF MANUFACTURERS

BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS

Hearing on

"Burdensome Regulations: Examining the Impact of EPA Regulations on Main Street."

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Good morning, Chairman Williams, Ranking Member Velázquez and distinguished members of the committee. Thank you for the opportunity to appear before you and for holding this important hearing today on how the regulatory onslaught is hurting small businesses.

Introduction

My name is Brandon Farris. I serve as the vice president of domestic policy at the National Association of Manufacturers. The NAM is the largest manufacturing association in the United States, representing small and large manufacturers in every industrial sector. At the NAM, we advocate policies that grow manufacturing in the United States and improve the lives of everyone, including the families of the nearly 13 million people who make things in America. The vast majority of the NAM's members are small and medium-sized businesses, giving us key insight into the issues they face every day.

I come from a small business family. My parents ran a driving school. My father, brother and I laid tile. My brother has a woodworking shop. I have seen firsthand how small businesses and entrepreneurship can raise the quality of life for families and communities. I have also seen the burdens that can accumulate quickly as family-led

businesses attempted to meet their customers' demands while struggling to comply with complex and costly, narrowly-tailored government mandates.

Small businesses are essential for our economy. A recent Small Business Administration study shows that small businesses account for 44% of all U.S. economic activity.[1] In the manufacturing sector, the majority of firms are small. According to the U.S. Census Bureau, in 2021, there were 238,851 firms in the manufacturing sector, with all but 3,920 firms considered to be small (i.e., having fewer than 500 employees). In fact, three-quarters of these firms have fewer than 20 employees, and 93.4% have fewer than 100 employees. These firms are the backbone of the manufacturing supply chain, often producing key components for larger firms making complex finished goods for consumers, the military or industrial uses. Manufacturing in America could not survive without a thriving small business sector.

Small businesses pay severe costs to comply with regulations

Manufacturing faces significant headwinds in the form of the cost, complexity and uncertainty associated with overreaching and burdensome federal regulations. To put it bluntly, manufacturers are facing a regulatory onslaught. This onslaught has a direct impact on manufacturers' ability to invest, hire and grow in the United States—threatening America's leadership.

The NAM recently released a landmark study analyzing the cost of unbalanced regulations through 2022,[2] and the results are shocking:

- The total cost of federal regulations is an estimated $3.079 trillion, an amount equal to 12% of U.S. GDP. The average U.S. company pays $13,000 per employee per year to comply with federal regulations.

[1] https://advocacy.sba.gov/2018/12/19/advocacy-releases-small-business-gdp-1998-2014/
[2] https://nam.org/competing-to-win/cost-of-regulations/

- For manufacturers, the cost of federal regulations is roughly $350 billion, a 26% increase from 2012. The regulatory burden on manufacturers is larger than the economies of 29 U.S. states.
- The average manufacturer in the United States pays $29,100 per employee per year to comply with federal regulations—more than double the regulatory burden faced by other industries.
- The burden on small manufacturers is even more severe, as they incur regulatory costs of $50,100 per employee per year. A small manufacturing firm with 20 employees bears more than $1 million in compliance costs per year.

The regulatory compliance burden for small businesses is more than three times the cost borne by the average U.S. company. Small businesses are exhausting time and resources to comply with inefficient, duplicative and unnecessarily burdensome regulations, instead of investing in new machinery, hiring more workers or developing new and innovative products. Surveyed manufacturers indicate that they could enhance their competitiveness if the cost of federal regulations were reduced, reallocating compliance funds toward compensation and hiring, research and development, sales and marketing, enhancing price competitiveness and improving return on investment.

Revised particulate matter standard can freeze economic growth

The NAM analysis only reflects regulations in place as of 2022, but new regulations or expansive revisions of existing ones have been especially disruptive and will surely chill manufacturing growth. For example, the Environmental Protection Agency recently finalized an early reconsideration of the National Ambient Air Quality Standards for fine particulate matter. The revision moved the current standard of 12 µg/m3 down to 9 µg/m3—which is approaching

or lower than natural background levels for many parts of the country.[3] The revised standard will make manufacturing in the U.S. less competitive globally and will create permitting gridlock throughout the country, as permit applicants will have to model to the new standard within 60 days. Ultimately, states will have to choose which new investments should be allowed to break ground. This revision was made despite the EPA itself saying that some 70% of particulate matter comes from nonmanufacturing sources, such as wildfires (29%), agriculture and prescribed fires (15%), crop and livestock dust (12%), unpaved road dust (10%), paved road dust (3%) and "dust" (2%).[4] As we saw last year, wildfires have had a demonstrable effect on air quality in the U.S.

This new regulatory burden will affect manufacturing investment directly, potentially diverting cutting-edge factories to other nations. The EPA's revision is far more stringent than the guidelines in place in Europe, where the current EU standard is 25 µg/m3 with a proposed reduction to 10 µg/m3 by 2030. And this revision seems to ignore the fact that the U.S. has improved its air quality dramatically. The EPA's 2022 Air Trends and National Emissions Inventory reports show that PM2.5 concentrations have declined by 42% since 2000,[5] driven by major emissions reductions from both mobile sources and the power sector. As a result, our air is cleaner than ever.

When a standard is set at naturally occurring levels, there are fewer tools available for compliance. The vast majority of PM2.5 emissions come from natural sources, yet the manufacturing industry will shoulder the greatest burden to comply with a standard that in many areas of the country is unachievable. If the air quality in an area reaches the level proscribed under the new standard, then no economic growth can happen and no new factories or infrastructure can be built without placing the area into nonattainment. Furthermore, even an

[3] https://www.epa.gov/air-trends/particulate-matter-pm25-trends
[4] https://www.epa.gov/system/files/documents/2023-06/PM_2022.pdf
[5] https://gispub.epa.gov/air/trendsreport/2023/#air_trends

area where air quality currently complies with the new standard may not be able to build new projects unless sufficient headroom exists to allow projects without placing the area into nonattainment. This will hit small businesses particularly hard because of the time, cost and expertise necessary to model their operations to the new standard quickly. Furthermore, many state permitting systems work on a first-in/first-out system, meaning that expansions or new factories for small businesses may not be able to be permitted for years to come.

Regulatory Onslaught

This is just one example of an agency action that will have far-reaching effects across the manufacturing economy. Many other proposals are moving toward finalization.

- The EPA has proposed numerous regulations that include burdensome reporting requirements and would restrict or create a de-facto ban on PFAS production or use. The carbon-fluorine bond that is the hallmark of PFAS is unmatched in chemistry, meaning that for many of its current uses, such as semiconductors, EV batteries, medical devices and items necessary for national defense, there are no existing replacements. These proposed restrictions would force manufacturers to abandon domestic production of critical items and instead rely on foreign production.
- Another proposed EPA regulation would impose new requirements on natural gas and coal power plants, which account for more than 60% of our nation's total power generation, requiring widescale deployment of carbon capture and sequestration/storage or co-firing with hydrogen. Noncompliant facilities would be shut down. Because the technologies required to meet the rule are unlikely to be available at scale in the timeframe required by the EPA, a large portion of our nation's power supply runs the risk of being taken offline if the rule is finalized as proposed.

- The EPA has proposed a regulation at levels so low it would create a de facto ban on the production and use of ethylene oxide, which is used to sterilize medical devices, including personal protective equipment used by doctors and hospitals, as well as other equipment that cannot be sterilized by steam.
- There are multiple conflicting vehicle emissions standards, including the EPA's proposed greenhouse gas and tailpipe emissions standards that would increase the cost of both manufacturing and purchasing vehicles. The EPA proposal would reduce consumer choice, as it requires two-thirds of vehicles produced to be battery-electric by 2032, notwithstanding the current limits on charging infrastructure, critical minerals and grid capacity that would be nearly impossible to address at this scale in this timeframe.
- The Toxic Substances Control Act program is vital to the innovation that drives our country. To ensure continued access to the newest chemicals that can make essential technologies even more effective and efficient, the TSCA needs to be administered in a manner that provides timely decisions on which manufacturers can rely. However, the EPA has proposed additional barriers and requirements that could stunt manufacturing innovation, such as potentially lowering the scientific rigor of risk evaluations by eliminating the definition of "best available science". The EPA's proposal also now essentially ignores the existence of Occupational Safety and Health Administration standards requiring manufacturers to use personal protective equipment, creating a duplicative need for manufacturers to prove they follow rules that have been in place for decades—rules governed by another agency that is better positioned to determine whether industry is following guidance. The EPA is mandated to review new chemical applications within 90 days; however, the vast majority of

approvals take much longer, and these new requirements may further extend that approval period, delaying deployment of new, efficient products.[6]

- The Securities and Exchange Commission's proposed climate disclosure rule would increase manufacturers' compliance costs dramatically, divert resources from job creation and growth, expose companies to increased liability, reveal proprietary and confidential information and ensnare wide swaths of the manufacturing supply chain. These effects would be felt throughout the industry, including by small and privately held businesses.
- The Department of Energy recently announced a freeze on pending decisions to export liquefied natural gas. Since the U.S. shale revolution, manufacturers in the U.S. have depended on access to clean, affordable, reliable American natural gas—and our abundance has allowed the U.S. to bolster our allies' energy security. For instance, after the invasion of Ukraine, the EU was able to slash Russian gas imports to one-third of 2021 levels mainly by tripling U.S. imports.[7] At a time when energy security is paramount, we cannot leave our allies or our manufacturers in the cold.

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Small businesses are vital to our economy and our lives. If we fail to reduce the regulatory burden on them, the U.S. is at risk of threatening the entrepreneurial spirit that has allowed small businesses to thrive. On the other hand, if we reduce their burden and costs, there is no limit to what small businesses in the United States can accomplish—for the good of our people and the good of the world.

[6] https://www.epa.gov/reviewing-new-chemicals-under-toxic-substances-control-act-tsca/statistics-new-chemicals-review
[7] https://www.politico.com/news/2024/01/19/biden-europe-gas-exports-00136671

As the NAM has emphasized consistently, regulatory reform is not about cutting corners. It is about keeping up with the world around us. It is about ensuring regulatory certainty that can guide investment decisions and ensure that this country's economic competitiveness is not outpaced or outflanked or overtaken by nations that do not share our values.

Thank you for inviting me to testify today. I look forward to continued engagement with members of this committee.