THE ECONOMIC EFFECTS OF THE PROPOSED BFGOODRICH/COLTEC MERGER

HEARINGS

BEFORE THE

SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES, AND REGULATORY AFFAIRS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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THE ECONOMIC EFFECTS OF THE PROPOSED BFGOODRICH/COLTEC MERGER

SATURDAY, JUNE 19, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL ECONOMIC GROWTH,
NATURAL RESOURCES, AND REGULATORY AFFAIRS,
COMMITTEE ON GOVERNMENT REFORM,
South Bend, IN.

The subcommittee met, pursuant to notice, at 10 a.m., in the Century Center, Recital Room, South Bend, IN, Hon. David M. McIntosh (chairman of the subcommittee) presiding.

Present: Representatives McIntosh and Kucinich.

Staff present: Jason L. Hopfer, deputy staff director and chief counsel; A. Lucas Messer, counsel; Gabriel Neil Rubin, clerk; and David Sadkin, minority counsel.

Mr. MCINTOSH. The Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs will come to order. I thank you all for coming this morning. Today I'm here with the subcommittee's Ranking Member Dennis Kucinich from Cleveland to hold a hearing looking into the whole question of whether the review of BFGoodrich's merger with Coltec, Inc. was conducted correctly by the Federal Trade Commission and the Department of Defense. We are concerned about whether that review has been adequately done in terms of the merger's effect under the antitrust laws of the United States. U.S. Senator Mike Dewine of Ohio has conducted a similar investigation in the Senate, and based on some of the testimony that came before his hearing on the topic, we have serious concerns regarding the thoroughness of the FTC and the DOD's review. Hopefully, today's discussion will shed some light on these concerns. This is the first field hearing we are having. We will have a second field hearing in Cleveland, OH, in July.

Now, from the outset, I want to point out that three of the parties represented here today, BFGoodrich, AlliedSignal and Coltec, are parties to a private antitrust lawsuit. That matter is properly before Judge Alan Sharp of the U.S. District Court in the Northern District of Indiana, and we will take great care not to interfere with that proceeding. Nonetheless, we are here today to take a hard look at the competitive effects of the national security implications of the proposed merger. We'll examine the FTC and Department of Defense's review and consider the potential impact on the merger to the economies in South Bend and Cleveland.

I do expect the parties to be as candid as possible today during their testimony, even given the nature of that lawsuit. In essence, here in South Bend, we are looking to make sure that the 1,100 workers at the AlliedSignal plant and the 650 workers at the Cleveland Pneumatic Plant are given a fair chance to compete. I support free market competition, but it's essential that the actors in that competition play by the rules. If the merger would result in a market concentration that would unfairly take away the opportunity for these workers to compete, then FTC action should be taken. Now, my primary concern today is the welfare of the workers at AlliedSignal, and that's why we are asking BFGoodrich and Coltec to discuss the potential impact of their merger on those workers. We will also be asking AlliedSignal what impact, if any, their merger with Honeywell will have to the operations here in South Bend. We did receive a letter from Mr. Lawrence Bossidy indicating that the proposed merger will not impact jobs in South Bend, and today we'll further pursue that in this hearing.

Returning to the BFGoodrich/Coltec merger, my concerns fall into three broad categories. First, I'm concerned about the potential anti-competitive effects of the BFGoodrich/Coltec merger. Now, in entering the preliminary injunction, Judge Sharp concluded the merger would likely result in a U.S. monopoly that would likely lead to higher prices for landing gears. This is a significant problem, not only for South Bend and Cleveland but for the Nation as well. Healthy competition leads to lower prices, increased innovation and improved quality and safety as the industry leaders are forced to improve their product in an effort to compete in the marketplace. If the BFGoodrich/Coltec merger would result in a monopoly that unfairly forces consumers to pay higher prices, then I believe that the FTC's job is to oppose the merger and make sure that does not happen. In addition, there's a national security interest in having at least two domestic suppliers of landing gears, because we can make sure the domestic landing gear in the commercial aircraft, as well as the military aircraft, will be available at those competitive prices. There is one other manufacturer worldwide, a French company, and in testimony before Senator Dewine, DOD indicated that they didn't have an objection on that. But, frankly, I'm not convinced of wisdom of having to rely on a foreign manufacturer for our military component parts.

Second, I'm concerned about the potential adverse impact of the merger on the economies here in South Bend and in Cleveland. If, as a result of the merger, the Cleveland plant is closed down, that's 650 jobs. But we also want to examine the impact of the merger and that initial plant closing on the 1,100 jobs here in South Bend.

Third, I'm concerned about honest and open public debate. My colleague Dennis Kucinich has been active in this longer than I have and is familiar with some of the record and assertions that were made as the merger was first being contemplated. We will get to the bottom of that and make sure the record is full in that area.

One of the things that I think is going to be very important is that we look and see what are the effects of this merger on the competitive supply in this area. And I understand there are changes in the marketplace as people are integrating what used to be separate components, brakes and wheels, and along with the landing structure into one single component that is provided to the consumers. That is something we want to examine and look at. We also need to make sure that there are win-win solutions out there, and that they have been adequately examined by the parties and considered, not only for their own individual interests, but as we expect to happen in a competitive marketplace to ensure that the national interest and competition survives intact and will be possible for us to make sure that we are able to have the consumers in this country benefit from that competition. With that, I'd like to welcome our witnesses here today. Congressman Roemer will be here a little bit later. He's participating in some of the festivities here in South Bend and is excited about being able to participate, as will Mayor Luecke.

Today in our first panel, we will have representatives from BFGoodrich, Mr. Terrence Linnert; welcome. And we'll also have a representative from Allied; present general manager, Carl Montalbine. I want to thank you for flying back from Europe to be with us today. Coltec executive vice president and general counsel, Robert Tubbs; thank you for being here. And on our first panel is a professor of law at Notre Dame, Mr. Bauer, who will be talking to us about some of the antitrust implications of this.

[The prepared statement of Hon. David M. McIntosh follows:]

Statement of Chairman David McIntosh
Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs
on
"The Economic Effects of the Proposed Merger between BFGoodrich Company and Coltec Industries"
June 19, 1999

Today, I am here, with the Subcommittee's Ranking Member, Dennis Kucinich, to express our concerns over the proposed merger between BFGoodrich Company and Coltec, Inc, and to examine whether the merger violates the anti-trust laws.

Congressman Kucinich and I are conducting a bipartisan investigation of the Federal Trade Commission's ("FTC") and Department of Defense's ("DOD") review of the BFGoodrich-Coltec merger. U.S. Senator Mike Dewine of Ohio is conducting a similar investigation in the Senate. And, based on testimony provided at Senator Dewine's hearing on this topic, I have serious concerns regarding the thoroughness of the FTC's and DOD's review of this merger. Hopefully, today's discussion will shed some light on these concerns.

Today's field hearing is our Subcommittee's first attempt to examine this merger. We have a second field hearing scheduled for July 7th in Cleveland, Ohio. At that hearing, we anticipate calling representatives of the FTC and DOD to testify.

From the outset, I would point out that three of the parties represented here today -- BFGoodrich, AlliedSignal, and Coltec -- are parties to a private antitrust lawsuit. That matter is properly before Judge Allen Sharp of the U.S. District Court for the Northern District of Indiana; and, we will take care not to interfere with this proceeding.

Nonetheless, we are here today to take a hard look at the competitive and national security implications of the proposed BFGoodrich-Coltec merger. We will examine the FTC's and DOD's review of the merger and consider the potential economic impacts of the merger on the economies of South Bend, Indiana and Cleveland, Ohio. And, I expect the parties to be as candid as possible during their testimony.

In essence, we are here today to ensure that the 1,100 workers at AlliedSignal in South Bend and the 650 workers at Cleveland Pneumatic are given a fair chance to compete. I support free market competition, but you have to play by the rules. If the BFGoodrich-Coltec merger would result in a market concentration that unfairly takes away the opportunity for these workers to compete, the FTC should take action.

My primary concern today is the welfare of the workers at AlliedSignal. That is why we will be asking BFGoodrich and Coltec to discuss the potential impact of their proposed merger on the workers at AlliedSignal. But, we will also ask the AlliedSignal representative to discuss what, if any, impact the recently proposed merger of AlliedSignal and Honeywell, Inc will have on AlliedSignal's South Bend operations.

We received a letter from AlliedSignal's CEO Lawrence Bossidy indicating that the proposed AlliedSignal-Honeywell merger will not impact jobs in South Bend. Today, I will ask AlliedSignal's representative to confirm this assurance under oath.

Now, returning to the BFGoodrich-Coltec merger, my concerns fall into three broad categories:

First, I am concerned about the potential anti-competitive effects of the BFGoodrich-Coltec merger. In entering a preliminary injunction against the merger on April 30th, Judge Allen Sharp concluded that the merger might be anti-competitive. According to Judge Sharp, "the merger would likely result in a U.S. monopoly ... that would likely result in higher prices for [landing] gears."

This is a significant problem, not only for South Bend and Cleveland but also for our Nation. Healthy competition leads to lower prices, increased innovation, and improved quality of safety, as industry leaders are forced to improve in an effort to compete in the marketplace. If the BFGoodrich-Coltec merger would result in a monopoly that unfairly forces consumers to pay higher prices for landing gear, I believe the FTC should oppose the merger.

In addition, there may be a national interest in having at least two domestic suppliers of landing gear. The proposed merger of BFGoodrich and Coltec would leave the United States with only one domestic landing gear manufacturer for large commercial and military aircraft. After the merger, the only other major landing gear manufacturer in the world would be Messier-Dowty, which is owned by the French government. In testimony before Senator Dewine, the DOD indicated that it has looked at the issue and determined that it has no objection to the merger. But, I, for one, am still not convinced of the wisdom of allowing a merger that would leave us with only one major domestic manufacturer of landing gear.

Second, I am concerned about the potential adverse impact of the merger on the economies of South Bend, Indiana and Cleveland, Ohio. If as a result of its merger, BFGoodrich closes down its Cleveland Pneumatic operations, 650 jobs would most likely be lost in Cleveland. But, the result could potentially impact the South Bend community as well.

AlliedSignal's South Bend plant is an industry leader in manufacturing wheels and brakes for commercial and military aircraft. If BFGoodrich and Coltec complete this merger and, if as a result of the merger AlliedSignal is denied a fair opportunity to compete, AlliedSignal's South Bend business could be in significant danger.

AlliedSignal is the sixth largest employer in South Bend, with 1,100 employees. Most are high paying, technology driven jobs, averaging more than $18 per hour. These sort of high paying manufacturing jobs are vital to the South Bend community.

But, AlliedSignal's contributions to South Bend are not solely economic. AlliedSignal has been a leading corporate citizen in South Bend for years. That is why community leaders like Patrick M. McMahon, the Executive Director of South Bend's Project Future, are concerned about the potential impact of the merger. Today, Mr. McMahon will testify about the many ways that AlliedSignal employees serve the South Bend community.

Third, I am concerned about honest and open public debate on this issue. We have not yet received all of the documents requested from BFGoodrich. However, based on a review of the documents submitted so far, I am concerned that BFGoodrich may have given contradictory statements regarding its intentions to close its landing gear operations in Cleveland.

In public statements to the Wall Street Journal, the Cleveland Plain Dealer, and others, BFGoodrich indicated that the merger would not affect jobs in Cleveland. For example, according to BFGoodrich's November 23, 1998 press release announcing the merger, "No other Ohio-based jobs will be affected by the decision to relocate the headquarters. The company currently employs approximately 3,300 Ohioans at more than a dozen locations around the state, including major operations in Akron, Avon Lake, Brecksville, Cincinnati, Cleveland and Troy." In the same press release, BFGoodrich CEO David L. Burner noted that BFGoodrich has "a long history here in Ohio, and many ties to the region. We intend to maintain those ties in as many ways as possible, including through the more than 3,000 BFGoodrich employees who will remain in Ohio."

The clear implication of this press release is that only the headquarters jobs would be lost in Ohio. Moreover, in conversations with the staffs of both U.S. Senator Mike DeWine of Ohio and Congressman Kucinich, BFGoodrich left the same impression: only the headquarters jobs were going to be lost.

However, in confidential documents submitted to DOD, BFGoodrich tells a much different story. These documents indicate that BFGoodrich is considering far more than just moving its headquarters. In fact, it appears that BFGoodrich is actively considering closing its Cleveland Pneumatic landing gear facilities.

Please allow me to read into the record excerpts from a letter, dated February 3, 1999, addressed to DOD, and I quote:

> [BFGoodrich] has been searching for business options and alternatives (including closing and moving equipment and operations from Cleveland ...) for several years in an attempt to put the landing gear business on a more sound footing ... After struggling mightily to improve productivity at the Cleveland facility, it determined that an important component of any long-range program would include closing the facility. Several options for doing so have been considered but rejected as not being economically feasible ... This situation highlights one of the main attractions of a merger with Coltec ... With the combined volumes of the two firms, one or more options may be attractive. In particular, the combined firm might well choose to close the Cleveland plant and plating ...

This letter makes clear that: (1) BFGoodrich has been considering closing the Cleveland plant for years, and (2) the merger with Coltec offers a good opportunity to do so.

But, this is not the only document provided by BFGoodrich indicating plans to close the Cleveland facility. In another document submitted to DOD on February 1, 1999, BFGoodrich presents three options for restructuring its operations after the BFGoodrich-Coltec merger. All three options included the following phrase "Close Cleveland/Plating ... Now."

In fairness, BFGoodrich argues that no final decision has been made regarding the future of the Cleveland Pneumatic facility. Today, we will have the opportunity to explore this issue further with a BFGoodrich representative. Hopefully, we will be able to put this matter to rest.

In closing, I want to emphasize that I am not here to say "no" to this merger. At Senator Dewine's hearing, Carl Montalbine of AlliedSignal proposed a possible win-win solution. According to Mr. Montalbine, if BFGoodrich sells its landing gear facility in Cleveland to AlliedSignal, everyone could win. BFGoodrich and Coltec would complete their merger, because the sale would ensure competition in the landing gear industry. AlliedSignal would obtain the opportunity to develop landing gear systems that use its aircraft wheels and brakes. And, workers in South Bend and Cleveland could keep their jobs and continue to have the opportunity to compete in the marketplace.

Most importantly, according to Mr. Montalbine's earlier testimony, AlliedSignal is committed to long term investments that would preserve jobs in both South Bend and Cleveland. I am sure this offer will be discussed again today. To me, this looks like a common sense solution. I hope all parties will reconsider it.

As in any antitrust dispute, the issues are complex and answers never easy. But, I am here because I want to ensure that the Hoosiers who work for AlliedSignal are given a fair opportunity to compete. After all, when applied correctly, that is what antitrust laws are designed to accomplish – fair competition.

And, rest assured, if the 1,100 Hoosier workers at Allied Signal are given a fair opportunity to compete, I have no doubt they will be successful. That's just the way it is in Indiana.

With that, I would like to welcome our witnesses here today: Congressman Tim Roemer; South Bend Mayor Stephen J. Luecke; BFGoodrich Senior Vice President and General Counsel Terrence Linnert; Aircraft Landing Systems Senior Vice President and General Manager Carl R. Motalbine; Coltec Executive Vice President and General Counsel Robert J. Tubbs; Notre Dame Law Professor Joseph P. Bauer; South Bend's Project Future's Executive Director Patrick M. McMahon; and AlliedSignal employee and President of UAW local #9 Thomas Bode.

Mr. McIntosh. With that, let me now welcome my colleague. We have worked together in this session very well in our subcommittee. He is long familiar with this issue and has been an active voice in Cleveland leadership and now is very active on our subcommittee and I appreciate you taking this Saturday morning to come over here and let me introduce you to all of my friends in Indiana, Mr. Dennis Kucinich, who is one of those hardest working Members in Congress that I've been able to work with. I appreciate you coming over. Thanks.

Mr. Kucinich. Thank you very much, Mr. Chairman. And I certainly appreciate the work you've done, and paying attention to this issue, and your concern for the economic well being, not only to the people of Indiana, but also the people of the State of Ohio. And we in Ohio are very grateful for the attention that you pay to this. And for you scheduling the hearings, not only today in South Bend, but also in July in the city of Cleveland. So I again want to thank you for scheduling the hearing. I also want to thank my colleague Congressman Tim Roemer for inviting us into his district so we can look at this issue.

I think it's very important for Members of Congress to get into the communities we serve. And it's important for our constituents to have an opportunity to see their government at work, especially when the issue has a direct impact on the district. So, we're here in South Bend today to look at the economic effects of the proposed merger of BFGoodrich and Coltec Industries. On July 7th we're going to be in Cleveland.

The American people, especially those in South Bend and Cleveland, have a real interest in the outcome of this proposed merger. BFGoodrich and Coltec Industries are the only two significant domestic manufacturers of landing gear which is used in both military and commercial airplanes. The combination of these companies would effectively create a monopoly in the industry which would likely lead to higher prices for taxpayers and consumers, as well as the loss of hundreds of jobs.

At the time the merger was announced, BFGoodrich said they intended to relocate their headquarters from the Cleveland area, where the company has been located since it was founded in 1870 to Charlotte, NC. This move meant the loss of 170 jobs. But according to the company press release issued at the time of the announcement, "No other Ohio-based jobs will be affected by the decision to relocate the headquarters." This commitment was reiterated on November 23rd, 1998, in a letter to me from the company's CEO.

It now appears, however, that this statement was not completely correct. While the company was telling the news media, the people of Cleveland, and elected officials like myself that the merger would not result in a loss of manufacturing jobs, company officials were telling government antitrust regulators that the resulting merger would create "efficiencies" through consolidation. In fact, a document prepared by BFGoodrich and provided to government regulators gave three options for the company to consider after the merger. All three options, all three options, included closing the Cleveland Pneumatic Co. plant, which employs about 650 people. Many of these employees are my constituents and their families.

But it doesn't end there. Since the merger was announced, another 150 Goodrich employees have already been laid off in another facility in Brecksville, OH.

Now, how could the BFGoodrich executives tell public officials that the merger would not result in the loss of jobs while telling Federal regulators the opposite? Well, I tried to find out. On April 15th, 1999, I wrote a letter to BFGoodrich's CEO asking for information about whether the company intended to close the Cleveland plant. I did not receive a response. Chairman McIntosh then sent a letter on behalf of the subcommittee, of which I'm the ranking Democratic member, asking for information from the company on the effects of the proposed merger. The company's response was totally insufficient.

So today we'll be asking representatives from Goodrich and Coltec these questions in public. And, of course, our great concern is what's going to happen to jobs, when the new merged company starts to integrate its landing gear systems by manufacturing its own components.

At the same time that employees are faced with losing their incomes, Coltec will pay its top executive tens of millions of dollars in bonuses. According to a report in the Cleveland Plain Dealer, nine top Coltec executives will receive severance payments totaling nearly $55 million after the company is acquired by BFGoodrich, including a $20 million golden parachute to the CEO. Six of these executives, including the CEO, will be retained by the new company. A company spokesman told the Plain Dealer that the payments are being made because the executives will be making less money and have less responsibility after the merger. So while hundreds of hard working Clevelanders will loose their jobs, these company executives will reap millions of dollars in bonuses to retain jobs with less responsibility.

Having said that, I'd like to add, this is not just about jobs. If the merger is allowed to take place, the new company will effectively control the domestic landing gear market. Without competition, this new monopoly will be able to set its own prices. And the biggest losers will be the American taxpayers. The U.S. Government will be forced to buy landing gear for its planes from the new monopoly, hence the taxpayers will get gouged. Of course, the military could buy parts from foreign companies such as Messier-Dowty, a firm owned by the French Government, but this does not seem like a good alternative.

American consumers will also pay the price. Airplane manufacturers like Boeing may end up paying higher prices for these components. They in turn will pass these costs on to commercial airlines, who make up the difference by increasing their ticket prices. And those increases will ultimately be paid for by all of us.

So what's the answer? Well, today we're going to hear from Carl Montalbine, the vice president and general manager of the AlliedSignal facility in South Bend. And AlliedSignal, we are aware, is willing to pay Goodrich fair market value for the Cleveland plant, which would keep competition in the industry while protecting hundreds of high-paying jobs. Unfortunately, BFGoodrich rejected this offer. AlliedSignal has filed suit to stop the merger, claiming, among other things, that the resulting monopoly would violate Federal antitrust law. A Federal judge here in South Bend recently issued a temporary restraining order to halt the merger.

In issuing his order, the judge found that, "The merger would likely result in a U.S. monopoly for the sale of landing gear that would result in higher prices." And that there was, "substantial likelihood," that AlliedSignal would succeed on its antitrust claims. The judge will hold a hearing on this issue next month. So if the judge believes that the merger would likely result in a U.S. monopoly that would result in higher prices for landing gear, Mr. Chairman, why didn't the Department of Defense or the Federal Trade Commission, which both reviewed the proposed merger, object to the merger? Those are some of the questions that remain unanswered that we are certainly going to be getting into.

I look forward to hearing from our witnesses, and I again want to stress my gratitude to Mr. McIntosh for his willingness to move forward on this issue which is so important to the people of Indiana, Ohio and the United States. Thank you, Chairman.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

ONE HUNDRED SIXTH CONGRESS

Congress of the United States

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Statement of Dennis J. Kucinich

Hearing on the Economic Effects of the Proposed Merger of BFGoodrich Company and Coltec Industries

June 19, 1999

Mr. Chairman, I want to thank you for scheduling this hearing this morning. I also want to thank my colleague, Congressman Tim Roemer, for inviting us to his district today to look into this issue. I think it is very important for Members of Congress to get out into the communities that we serve and for our constituents to have an opportunity to see their government at work -- especially when the issue has a direct impact on the district.

We are here in South Bend today to look into the economic effects of the proposed merger of BFGoodrich and Coltec Industries. On July 7, we are going to be in my hometown of Cleveland, Ohio, to hold a second hearing on this matter. The American people -- and especially those in South Bend and Cleveland -- have a real interest in the outcome of this proposed merger. BFGoodrich and Coltec Industries are the only two significant domestic manufacturers of landing gear, which is used in both military and commercial airplanes. The combination of these companies would effectively create a monopoly in the industry, which would likely lead to higher prices for taxpayers and consumers, as well as the loss of hundreds of jobs both here in South Bend and in Cleveland.

At the time the merger was announced, BFGoodrich said that they intended to relocate their headquarters from the Cleveland area, where the company has been located since it was founded in 1870, to Charlotte, North Carolina. This move meant the loss of 170 jobs. But according to a company press release issued at the time of the announcement, "[n]o other Ohio-based jobs will be affected by the decision to relocate the headquarters." This commitment was reiterated in a November 23, 1998, letter to me from the company's CEO.

It now appears, however, that this statement was not completely correct. While the company was telling the news media, the people of Cleveland, and elected officials like myself that the merger would not result in the loss of manufacturing jobs, company officials were telling government antitrust regulators that the resulting merger would create "efficiencies" through consolidation.

In fact, a document prepared by BFGoodrich and provided to the government regulators gave three options for the company to consider after the merger. All three options included closing the Cleveland Pneumatic Company plant, which employs about 650 people. Many of these employees are my constituents and their families. But it doesn't end there. Since the merger was announced, another 150 Goodrich employees have already been laid off from another facility in Brecksville, Ohio.

How could BFGoodrich executives tell public officials that the merger would not result in the loss of jobs while telling federal regulators the opposite? I tried to find out. On April 15, 1999, I wrote a letter to BFGoodrich's CEO asking for information about whether the company intended to close the Cleveland plant. I did not even receive the courtesy of a response. Chairman McIntosh then sent a letter on behalf of this subcommittee, on which I am the Ranking Democratic Member, asking for information from the company on the effects of the proposed merger. Unfortunately, the company's response did not provide sufficient answers. So today we will ask representatives from Goodrich and Coltec these questions, in public, and hope to get a more complete response.

It is not just the residents of Cleveland that will be affected by this merger. There are 850 employees right here in South Bend working for AlliedSignal, which manufactures wheels and brakes for Coltec landing gear systems. What is going to happen to those jobs when the new merged company starts to integrate its landing gear systems by manufacturing its own components?

At the same time that these employees are faced with losing their incomes, Coltec will pay its top executive tens of millions of dollars in bonuses. According to a report in the Cleveland *Plain Dealer*, nine top Coltec executives will receive severance payments totaling nearly $55 million after the company is acquired by BFGoodrich, including a $20 million "golden parachute" to the CEO. Six of these executives, including the CEO, will be retained by the new company. A company spokesman told the *Plain Dealer* that the payments are being made because the executives will be making less money and have less responsibility after the merger. So while hundreds of hard working Clevelanders will lose their jobs, these company executives will reap millions of dollars in bonuses to retain jobs with less responsibility.

This is not just about jobs, however. If this merger is allowed to take place, the new company will effectively control the domestic landing gear market. Without competition, this new monopoly will be able to set its own prices. And the biggest losers will be the American taxpayers. The U.S. government would be forced to buy landing gear for its planes from the new monopoly and it is the taxpayers who will get gouged. Of course, the military could buy the parts from a foreign company such as Messier-Dowty, a firm owned by the French government, but this does not seem like a good alternative.

American consumers will also pay the price. Airplane manufacturers like Boeing may end up paying higher prices for these components. They in turn will pass these costs onto the commercial airlines, who will make up the difference by increasing their ticket prices. And those increases will ultimately be paid by all of us.

What is the answer? Today we will hear from Carl Montalbine, the vice president and general manager of the AlliedSignal facility in South Bend. He will tell us that there may be a simple solution to this problem. AlliedSignal is willing to pay Goodrich fair market value for the Cleveland plant, which would keep competition in the industry while protecting hundreds of high paying jobs. Unfortunately, BFGoodrich rejected this offer.

AlliedSignal has filed suit to stop the merger, claiming, among other things, that the resulting monopoly would violate federal antitrust law. A federal judge here in South Bend recently issued a temporary restraining order to halt the merger. In issuing his order, the judge found that "the merger would likely result in a U.S. monopoly for the sale of landing gear that would result in higher prices" and that there was a "substantial likelihood" that AlliedSignal would succeed on its antitrust claims. The judge will hold a hearing on this issue next month.

So if the judge believes that "the merger would likely result in a U.S. monopoly . . . that would result in higher prices for [landing] gear," why didn't the Department of Defense or the Federal Trade Commission, which both reviewed the proposed merger, object to the merger? Those are some of the questions we will be asking today and at our next hearing in Cleveland on July 7.

Thank you, Mr. Chairman. I am looking forward to hearing from our witnesses this morning, and I yield back the balance of my time.

Mr. MCINTOSH. Thank you, Representative Kucinich. Let us now turn to the witnesses, and I would ask each of you to please rise and take an oath. And let me assure you we're not singling you out for that; it is the policy of our full committee chairman, Dan Burton, that we swear in every panel we have as an oversight committee. So, if you would please affirm. Do you solemnly swear that the testimony you will give today is the truth, the whole truth, and nothing but the truth?

[Panel members respond in unison.]

Mr. MCINTOSH. Thank you. Let the record show that each of the witnesses answered in the affirmative. And we will now begin this panel. And what I would ask each of you to do is summarize the written, prepared statements you've provided. We will include the entire text of your statement in the record, and it will become part of the record of this proceeding. But take about 5 minutes and summarize the key points. And I would ask you to, if you could, focus in on those that address the questions that Representative Kucinich and I brought forward in our opening statements. Let's start with Mr. Linnert from BFGoodrich, if you would share with us your testimony. The light should go on and then the yellow light will go off when you have about 30 seconds left and the end of the 5 minutes is the red light. We are not going to be that strict, but just give you a guidance in terms of how you are doing. So, Mr. Linnert, please share with us the summary of your testimony.

STATEMENTS OF TERRENCE LINNERT, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, BFGOODRICH; ROBERT TUBBS, EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY, COLTEC INDUSTRIES; CARL MONTALBINE, SENIOR VICE PRESIDENT AND GENERAL MANAGER AIRCRAFT LANDING SYSTEMS, ALLIEDSIGNAL, INC.; AND JOSEPH BAUER, PROFESSOR OF LAW, NOTRE DAME SCHOOL OF LAW

Mr. LINNERT. Thank you, Chairman McIntosh, Representative Kucinich, and good morning. It is helpful to place today's hearing in context. BFGoodrich and Coltec will merge to create a financially stronger, more diverse global competitor than either firm is today standing alone. In today's intensely competitive environment, we need to do this so that we do remain strong, healthy partners with our customers, and so that we provide a growing environment for our employees. This merger will produce savings for our customers and jobs for our employees. There's a lot at stake, in this and every other merger; jobs are created or constructed; companies move or grow; products succeed or flop overnight. Missing an expanding market or not deploying a new technology or borrowing money at the wrong time can create a dinosaur. The results for the U.S. economy, our national security, and the economic health of our workers and shareholders can be disastrous. There will always be critics of these mergers beyond the appropriate interest of the government or the courts, so be it. But those that usually carp the loudest are most afraid that they will lose a preferred position in the marketplace to new, more vigorous, more modern, and, yes, more formidable competition. And most frequently these corporate critics go out and get a deal of their own. It's ironic then that

AlliedSignal is our most vocal critic. The Allied/Honeywell merger creates a $45 billion giant that will be able to cross-sell aerospace products in ways that BFGoodrich and Coltec cannot match, because it will not have the breadth of product offerings. It is even more ironic since AlliedSignal will fire 4,500 people in connection with its merger.

While Allied's Chairman Bossidy has recently assured South Bend that no jobs will be lost due to the Honeywell merger, one needs only look back to 1995 when AlliedSignal exited its South Bend landing gear business by selling equipment and contracts, to see that Allied's concern for South Bend rises and falls as it suits Allied's corporate purposes.

Mergers in the defense and aerospace industries are a fact of life. Since the end of the cold war, U.S. defense spending has declined dramatically. This reduced spending has driven consolidation, as you noted earlier, throughout the defense industry. Other factors such as globalization, requirements of scale and scope, also drive consolidation throughout the defense and aerospace industry.

Efficiencies of design and production and the need to generate and consume large amounts of capital quickly dictate corporate and management strategies that must be judged simultaneously in both the short- and long-term.

One of the consequences of consolidation is typically the loss of some jobs. As part of Goodrich's merger with Coltec, approximately 170 headquarter's positions will relocate to North Carolina. Similarly, the AlliedSignal/Honeywell merger will result in the closing of Honeywell's headquarters in Minneapolis and a job loss of 1,000 employees. While these relocations have a human impact that we take seriously, they should not overshadow the positive consequences of this merger. The plain fact is the merger of Goodrich and Coltec will produce significant benefits for employees, customers, shareholders and our communities.

Following the merger Goodrich will employ 27,000 people worldwide; the size and diversity, financial and technological strength and global reach of our businesses will create job stability and growth opportunities for our existing work force. As a stronger worldwide competitor, we will be better positioned to compete for business abroad; a stronger, better BFGoodrich is good for our employees and our customers. Our customers are very sophisticated; they demand innovative and quality products backed by the highest level of customer service and technical support. All at a fair and competitive price. Our customers are our lifeblood. If they had objected, this merger probably would not have gone forward. They have not objected because they are satisfied that they do have sufficient options to preserve healthy competition for their business, and they recognize the merger enables us to serve them better.

Mr. Chairman, as you can see from looking at that one chart, those are the folks—some of the folks who are in the business before this merger, in the wheels and brakes, brake control systems, and landing gear. If you could just visualize that chart, and the number of players on it, I'd like now to show you the post-merger chart. You will see not much change from pre-merger to post-merger because of our consolidation and affiliation with Coltec. Looks awful similar to the pre-merger chart. Mr. Chairman, as you know, the Federal Trade Commission and Department of Defense, as you said in your remarks, like our customers, have each come to the same conclusion following lengthy and comprehensive examinations. Both agencies listened carefully to the various arguments presented by AlliedSignal and Crane; both agencies concluded the merger should be allowed to proceed without objection.

I would like to address more specifically your concern about the merger's impact on Ohio jobs. Following the merger, BFGoodrich will employ more than 3,000 people in Ohio in management, manufacturing and research positions. Our performance materials business with more than $1 billion in revenue will remain headquartered in Brecksville. We have other BFGoodrich operations throughout many locations in Ohio. And we have been adding jobs in Ohio; since January 1997, our aerospace employment is up 14 percent. We remain committed to Ohio and to our work force in Ohio. Following the merger, Goodrich will contribute more than $20 million per year in taxes in Ohio as part of its continuing presence in the State. And as our company grows, we'd hope to build on that employment base.

Much has been said about the future of our Cleveland landing gear plant. Mr. Chairman, let me be very clear about this. BFGoodrich management has made no decision about this facility or any other landing gear facility. Having said that, I must tell you that the U.S. landing gear business is 15 percent below its peak volume, and customer demand is expected to remain low for the next 10 years. In this business environment, status quo cannot prevail. One of the attractions of the Coltec merger does come from combining the volume of the two firms and achieving more efficient capacity utilization. This added volume of financial strength will allow Goodrich to modernize and update our facilities.

After the merger, we will look at our operations and determine how best to become a more efficient and lower cost producer. That may include upgrading plants, reconfiguring our production mix and, perhaps, closing facilities. But failure to make those hard decisions could cost us competitive edge, and even more jobs than if we ultimately decide to close a plant. But until the merger has closed—I want to emphasize—until it has closed, the planning cannot be done and no decisions have been taken.

Mr. Chairman, there has been a lot of talk about how our merger will affect South Bend jobs. But that's what it is, talk. If there's more to it, then I'd like hear from AlliedSignal when they plan to layoff the first worker here in South Bend. I'll bet other folks in South Bend would like to know also.

AlliedSignal's, the vast majority of their wheels and brake business is in the large aircraft aftermarket. Those aircraft are already in production and operation. AlliedSignal is certified on 13 of the 20 commercial aircraft types built by Boeing and Airbus; each of those aircraft will be in service typically for 20 or more years. AlliedSignal has an annuity in the supply of wheels and brakes on those aircraft, and nothing about our merger can or will change that.

If AlliedSignal's wheel and brake business suffers or fails, Mr. Chairman, it will be because AlliedSignal did not meet its customer expectation for quality products at competitive prices. If jobs are lost here in South Bend it will be because AlliedSignal did not run its business here well and not because of our merger.

AlliedSignal makes some claim about the need to partner on a team with the landing gear suppliers so it can compete for integrated systems or to avoid gaming of the landing gear wheel and brake interface design. No credible, independent industry expert has supported those claims. But AlliedSignal does have a partner, if it chooses, under the strategic alliance agreement with Coltec. Just this week, the Arbitration panel in New York ruled against AlliedSignal, and found that the merger does not violate that strategic alliance agreement and that adequate safeguards could be implemented to protect any proprietary or confidential information that Allied has. Therefore, their partnership going forward to make landing gear for integrated system is in existence. Moreover, Mr. Bossidy talked about his $10 billion war chest to make more acquisitions after swallowing Honeywell. If AlliedSignal really need a landing gear partner for its wheel and brake business, it could invest $200 million, a small amount, from its acquisition war chest to build a world-class landing gear facility here in South Bend, or wherever they choose.

Actions speak louder than words, Mr. Chairman. And AlliedSignal's actions tell me it prefers carping over competing. Our goals are the same, Mr. Chairman. We at Goodrich want to grow so that we can satisfy our customers, challenge, reward and retain our employees, and provide financial returns for our investors. We can only achieve those goals by providing innovative, quality, least-cost products to our customers consistently and timely. By becoming a stronger competitor, we help the economy and the work force.

Mr. Chairman, let me tell you what we are committed to. We're committed to growing jobs and marketplace position; we're committed to sustaining a vigorous U.S. national defense position; we're committed to involving workers, shareholders, customers, management and government decisionmakers in our future business growth plans; and we are committed to building and designing the best price and best performing products for this market, or any other marketplace. We challenge AlliedSignal, Crane, Honeywell or anyone else to come and beat us fair and square in the marketplace. Thank you, Mr. Chairman.

[The prepared statement of Mr. Linnert follows:]

TESTIMONY OF
TERRENCE G. LINNERT
ON BEHALF OF
THE BFGOODRICH COMPANY

I am delighted to have the opportunity to appear before the Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs to discuss the economic effects of the merger between BFGoodrich and Coltec.

I understand from your letter to BFGoodrich that the committee is specifically interested in BFGoodrich's plans for its Cleveland landing gear facility. I will address that issue more fully in my remarks; at the outset, and as we have stated previously, the Cleveland Pneumatic Company is a core business and it is not for sale. BFGoodrich has made no plans with respect to any specific facility that makes up that business or the Menasco business, and will not do so until the merger has been consummated.

It is important to place today's hearing in context. Multibillion dollar mergers have become an almost daily occurrence. As this Subcommittee has no doubt heard before, technology and globalization fuel this consolidation. In addition, in the defense and aerospace industries, the end of the Cold War drives much of the consolidation. Defense spending reductions and the consolidation at the apex of the defense supply chain have placed ever greater demands on the component supplier community to become more efficient while at the same time increasing the risks of business. BFGoodrich is not here to complain about the difficulty of competing. Rather, BFGoodrich believes that the market forces of competition will determine the winners and the losers in these changing and challenging times.

Mergers are an inevitable part of the restructuring of our industrial base. From the standpoint of competition policy, this is not a bad thing -- most mergers are procompetitive or competitively neutral. Rigorous review by the regulatory agencies -- here, the Department of Defense and the Federal Trade Commission -- provide important reassurance that those mergers that may hurt competition do not go unchallenged. The BFGoodrich/Coltec merger has successfully undergone a review by both the Department of Defense and the Federal Trade Commission. I can assure the Subcommittee that the review process was both rigorous and comprehensive. We welcome any inquiry the Subcommittee may have regarding the thoroughness of the work of the reviewing agencies.

It is also a fact that mergers and consolidations may dislocate people and can result in the consolidation or relocation of some jobs. While that is not always the case, clearly the demands of a global and technologically advanced society require greater productivity and efficiency. At BFGoodrich, we approach this part of the merger business very carefully. Our work force is important to us and we recognize the contributions our employees make to our success. We are committed to providing opportunities to our employee community to grow within our organization. We do not approach layoffs or plant closings with zeal or happiness. When such actions are needed for the greater good, we take them reluctantly and only after due deliberation. It is, therefore, ironic that interest in the BFGoodrich/Coltec merger was fueled by Allied Signal's spurious and false allegation that, in conjunction with the merger, BFGoodrich would close its Cleveland plant and eliminate 650 jobs. Allied Signal announced just two weeks ago its planned $15 billion merger with Honeywell. As part of that merger, Allied Signal plans to fire 4500 people to help it "realize the efficiencies" of its merger. While the citizens of South Bend apparently will be spared any job losses due to the Honeywell merger, the citizens of Minneapolis will not fare so well. We welcome any inquiry the Subcommittee may have regarding BFGoodrich's views on the important public policy issues associated with mergers and jobs.

I have organized my written testimony in three sections: 1) the merger review process; 2) the competitive implications of the merger; and 3) the effect of the merger on U.S. jobs.

THE MERGER REVIEW PROCESS

BFGoodrich and Coltec agreed to merge in late November, 1998, and submitted the required H-S-R notifications in early December. Shortly thereafter, representatives of BFGoodrich met with representatives of the Department of Defense to discuss the proposed merger. Between December 1998 and March 1999, representatives of the parties to the merger met and spoke with representatives of the Department of Defense regularly. The parties provided extensive information about their businesses to the Department of Defense in response to a detailed questionnaire from the Department. The parties responded fully and completely to every question posed by the Department of Defense.

We understand that representatives of Crane and Allied Signal met with officials of the Department of Defense in multiple efforts to derail the merger. While we do not know the details of their arguments, we believe they raised many of the same competition concerns that have been presented in other forums. The Department of Defense carefully considered the arguments presented by all concerned; from time to time, we were asked by the Department of Defense to provide information responsive to Crane and Allied Signal complaints, and we did. On March 15, 1999, the Department of Defense notified the FTC and BFGoodrich that "the Department will not object to the proposed acquisition of Coltec Industries by BFGoodrich."[1]

The FTC's Bureau of Competition conducted its own review parallel to that of the Department of Defense. While the Bureau of Competition conducted its investigation, Allied Signal initiated private antitrust litigation here in Indiana. With BFGoodrich's

1 Letter 3/15/99 from Jacques S. Gansler, Under Secretary of Defense, to Terrence G. Linnert

consent, Allied Signal provided to the Bureau of Competition selected material it had obtained from BFGoodrich in discovery in the private lawsuit. BFGoodrich, at the request of the Bureau of Competition staff, provided the staff all of the discovery materials, including thousands of documents and pages of deposition testimony. The staff attorneys at the FTC diligently reviewed the material, evaluated the potential for anticompetitive effects, and concluded there were none.

Allied Signal and Crane were not satisfied with this outcome and insisted on meetings with the FTC commissioners. We are informed that Allied Signal and Crane met with each commissioner and used evidence obtained in discovery in the private litigation in their effort to persuade the FTC to intervene. Not one commissioner concluded that the merger ought to be challenged. On April 26, 1999, the FTC advised BFGoodrich and Coltec that it had closed its investigation without taking any action.[2]

Over a five month period, two federal agencies, each charged with considering the competitive implications of mergers, have reviewed the BFGoodrich/Coltec merger and both have concluded that no further action was warranted. This is strong evidence that the merger will not have anticompetitive effects, particularly given the vigorous antitrust enforcement we have seen in this same time frame (Lockheed-Martin/Northrop; General Dynamics/Newport News; Litton Industries/Newport News).

THE COMPETITIVE IMPLICATIONS OF THE MERGER

The merger of BFGoodrich and Coltec is procompetitive. As a result of consolidation among aircraft manufacturers and a declining number of new aircraft program starts, business opportunities for landing gear structure manufacturers have diminished. The total number of aircraft produced declined from more than 900 per year in the early 1990's to a low of 416 in 1996. While production has picked up since 1996, it is not expected to exceed about 800 aircraft per year over the foreseeable future.

The merged BFGoodrich/Coltec is likely to be better able to serve its customers in this environment. Significant cost savings are likely to result from the merger. These cost savings will enable BFGoodrich to offer savings to its customers, invest in more efficient equipment, and invest in additional landing gear projects.

BFGoodrich presently competes with Messier-Dowty, a French firm, for landing gear. At Airbus, Messier-Dowty has won all the procurements in which BFGoodrich has competed. The merger will place BFGoodrich in a stronger position to compete for Airbus business.

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2 April 26, 1999 letter from Richard G. Parker, Senior Deputy Director, Bureau of Competition, FTC, to Terrence G. Linnert

Allied Signal contends that the merger will put BFGoodrich in a near monopoly position with regard to sales of landing gear. Nothing could be further from the truth. Our business is global and we compete with suppliers from around the world for business here and abroad. The following are among the landing gear manufacturers capable of providing main landing gear for large commercial aircraft: BFG/Coltec; Messier-Dowty (a French firm); SHL (a subsidiary of Israeli Industries, which provides the landing gear for the Boeing 717); Heroux (a Canadian firm which provides landing gear for the C17); and Hydro-Mash (a Russian company). Several other firms presently manufacture nose gear for commercial aircraft and could increase capacity to supply main landing gear for large commercial aircraft. These companies include Liebherr, APPH, Sumitomo, and Castle Precision. Thus, after the merger, BFGoodrich would face competition from at least 8 firms that presently manufacture main and/or nose gear for commercial aircraft. These firms, and two others (EDE and Cessna) provide landing gear for regional, business and military aircraft. Indeed, Boeing has expressly advised BFGoodrich that Boeing will be looking to Messier-Dowty as a landing gear supplier for large commercial aircraft.

For several reasons, BFGoodrich cannot, and will not be able to, dictate terms to any aircraft manufacturer, or to unilaterally raise prices or to design landing gear in a way that disadvantages competitors' wheels and brakes and components. Whether the customer is Boeing or the Department of Defense or any other airframe manufacturer, the customer owns the data rights to the landing gear and to the interface between the landing gear and other system components. Indeed, on new programs, Boeing requires potential landing gear suppliers to jointly prepare the design of new landing gear at no cost to Boeing. Boeing then selects various suppliers to compete to produce the components and subsystems. If Boeing believes a supplier is not responsive or competitive, it can and will select another manufacturer. Moreover, many of the smaller landing gear components can be subcontracted. (BFGoodrich presently subcontracts 90% of its landing gear components.)

BFGoodrich and Allied Signal compete in the wheel and brake business, but nothing about this merger will enable BFGoodrich to discriminate against Allied Signal's wheel and brake business. As noted above, the airframe manufacturer owns the data rights, and the wheel and brake manufacturer can obtain the necessary interface information from the airframe manufacturer. Airframe manufacturers actively promote multiple sources of wheels and brakes because it drives down the total, lifetime cost of aircraft.

BFGoodrich competes with AlliedSignal, Aircraft Braking Systems Company ("ABSC"), Dunlop and Messier-Bugatti in the global wheel and brake business. The merger will not affect the number of competitors for that business. Significantly, ABSC and Dunlop have substantial positions in the wheel and brake business even though neither has a landing gear operation or an alliance with a landing gear manufacturer.

AlliedSignal has claimed that the merger of BFGoodrich and Coltec will foreclose AlliedSignal from the wheel and brake business and cost jobs here in South Bend. This claim is nothing but a scare tactic. For significant financial and customer relations reasons, aircraft manufacturers always retain complete authority to, and do, select the wheel and brake suppliers that will be included in new airplane platforms. Strong, effective competition in the wheel and brake business does not depend on owning or being allied with a landing gear operation. This is shown by the fact that ABSC, AlliedSignal and BFG all have significant wheel and brake positions on Airbus platforms even though Messier-Dowty is the primary landing gear supplier for Airbus, and its affiliate, Messier-Bugatti also supplies wheels and brakes.

Wheel and brake suppliers earn a large percentage of their revenue in the aftermarket; that is, in the supply of replacement wheel and brake components over the life of an aircraft. For this reason, wheel and brake suppliers compete vigorously to be designated by the aircraft manufacturer. The wheel and brake supplier often provides its wheels and brakes for the original equipment aircraft free of charge, and often pays an aircraft manufacturer substantial "certification" fees to compensate the manufacturer for the costs of certifying the wheel and brake system when the aircraft design is approved by regulatory authorities.

A wheel and brake manufacturer is not precluded from sales in the aftermarket if it does not supply the original wheels and brakes to the aircraft manufacturer. A wheel and brake manufacturer can obtain a "second source certification" from the FAA. Aircraft manufacturers actively encourage the development of different sources for replacement wheels and brakes because it provides the aircraft manufacturer with another option for its customers, promotes competition, and ultimately drives down the cost of aircraft maintenance operation for airlines. Airlines increasingly insist on at least two wheel and brake suppliers for an aircraft type and also have supported efforts to develop a second source at the request of individual wheel and brake suppliers. The most recent example of "second source certification" is Boeing's announcement in April 1999 that it had qualified Messier-Bugatti as a second wheel and brake supplier on the Boeing 767-300 aircraft. Both AlliedSignal and BFGoodrich have also qualified wheels and brakes for aftermarket sales on aircraft for which they were not initially qualified by the aircraft manufacturer.

Airlines and other end-users insist on dual suppliers for wheels and brakes so they can reduce operating costs by having competition for aftermarket sales. Consequently, all Airbus commercial aircraft are produced with at least two qualified sources for wheels and brakes. All but one or two Boeing commercial aircraft are produced with two qualified sources for wheels and brakes. Given the financial incentives for the airframe manufacturer and the requirements of their airline customers, there is no reason to expect Boeing or Airbus to launch any new aircraft platform that does not have dual sources for wheels and brakes.

If this merger were likely to have anticompetitive effects, our customers would have objected. They have not. Our relationships with our customers are so important that, had they objected, we probably would not have gone forward with the merger. Indeed, prior to announcing the merger, my CEO, the President of BFG Aerospace and the CEO of Coltec met with the President and COO of Boeing and we were advised that Boeing did not oppose the merger. We have also been told by Lockheed Martin and Bombardier that neither opposed the merger. As far as we know, no aircraft manufacturer has opposed this merger.

I appear before the Subcommittee confident that this merger is good for competition and good for our customers. Those customers and the federal agencies charged with enforcing competition policy have agreed. I am confident that history will bear out those judgments.

THE EFFECT OF THE MERGER ON U.S. JOBS

Following the merger, BFGoodrich will employ 27,000 people worldwide. The size and diversity, financial and technological strength and global reach of our businesses will create job stability and growth opportunities for our existing work force. The benefits and efficiencies in this merger, perhaps unlike others, are not centralized on employee reductions and layoffs. Rather, it is our hope that the merger will be a source of job growth as we realize the benefits of being more competitive both domestically and overseas.

As part of the merger, approximately 170 headquarters positions will relocate from Ohio to North Carolina. This sort of headquarters consolidation and relocation is typical of mergers. There will be 4,500 jobs lost as a result of the Allied Signal/Honeywell merger, including 1,000 due to Honeywell's relocation from Minnesota to New Jersey.

I would like to address more specifically the Chair's concern about the merger's impact on Ohio jobs. In February, 1999, in response to an inquiry from the Department of Defense, BFGoodrich provided a preliminary, internal study that presented possible options for restructuring the landing gear business. Although each of the options presented by the study contemplated closing the Cleveland plant, BFGoodrich told the Department of Defense that "its views concerning reconfiguration are necessarily tentative" because it did not have cost information regarding any Coltec facilities.[3]

Let me be very clear about the future of our Cleveland landing gear plant: BFGoodrich management has made no decision about the future of this facility. Having said that, I must tell you that the U.S. landing gear business is 15% below its peak volume, and customer demand is expected to remain low for the next 10 years. In this business environment, status quo cannot prevail.

[3] February 3, 1999 letter to Kathy Brown, Senior Attorney, Office of General Counsel, Dept. of Defense from Tom D. Smith. There is absolutely no truth to allegations that BFGoodrich told the Department of Defense or the FTC that it would close the Cleveland plant.

After the merger, we will look at all of our operations and determine how best to become a more efficient and lower-cost producer. This may include upgrading plants, reconfiguring our production mix and, perhaps, closing facilities. The failure to make these hard decisions could cost us our competitive edge and even more jobs than if we ultimately decide to close a plant. Until the merger has closed, however, we do not have access to the information we need to make an intelligent decision and, as a consequence, no decisions have been taken.

I promise you this -- we will include all of our stakeholders in the process. We have already received a very appropriate and much appreciated invitation from Governor Taft of Ohio to consult with his office as we go forward in our planning and we have assured him that we will do so. Likewise, we will talk to the unions, other state, local and federal government officials as well as other interested groups to help us make the most informed and sound decision possible.

Whatever decision is reached regarding any of our facilities, BFGoodrich remains committed to Ohio. Following the merger, BFGoodrich will employ more than 3,000 people in Ohio in management, manufacturing and research positions. Our Performance Materials business, with more than $1 billion in revenue, will remain headquartered in Brecksville. Other BFGoodrich operations in Ohio are located in Akron, Avon Lake, Chagrin Falls, Cleveland, Cincinnati, Columbus, Dayton, Elyria, Green, Troy, Twinsburg and Uniontown.

We have been adding jobs in Ohio -- since January 1997 we have added 200 jobs to our aerospace work force in Ohio and aerospace employment is up 14%. We remain committed to Ohio and to our work force in Ohio. Following the merger, BFGoodrich will contribute more than $20 million per year in taxes to Ohio as part of its continuing presence in the State.

I would also like to address AlliedSignal's contention that the BFGoodrich/Coltec merger will adversely affect jobs at AlliedSignal's plant in South Bend. There is no basis in fact for this claim. First, as discussed above, there is no reason to expect that aircraft manufacturers or airlines will depart from the current practice of certifying more than one source of wheels and brakes for new aircraft platforms. Nor is there any evidence that the landing gear supplier directs or controls the selection of the wheel and brake supplier. The evidence all shows to the contrary. On at least two occasions, AlliedSignal teamed with Menasco and submitted bids to Bombardier to supply a fully integrated landing system, which included Menasco landing gear and AlliedSignal wheels and brakes. In both cases, Bombardier did not accept the "system" bid and, instead, designated Menasco (the landing gear supplier) as integrator and directed Menasco to use someone besides its teaming partner to supply wheels and brakes. Similarly, BFGoodrich bid a system to Ayres, a regional/business aircraft manufacturer. After a competitive bid, Ayres selected BFGoodrich's proposal, which included BFGoodrich landing gear and wheels and brakes, and Hydro-Aire brake controls. Ayres, however, directed BFGoodrich to use ABSC wheels and brakes.

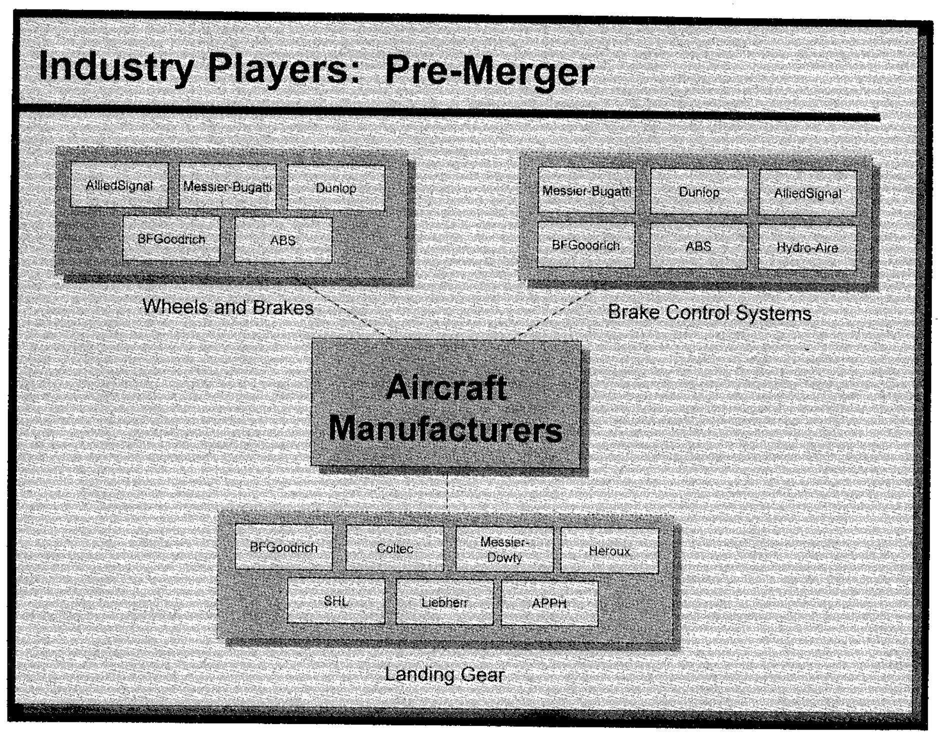
Moreover, BFGoodrich will work with AlliedSignal on future "system" bids in accordance with the Strategic Alliance Agreement ("SAA") between AlliedSignal and Menasco. BFGoodrich will take all steps to comply with the SAA and to protect "confidential" information of AlliedSignal so that, if AlliedSignal chooses, it will continue to enjoy the full benefits of the SAA postmerger. AlliedSignal's "concerns" about its proprietary information are unreasonable; mechanisms such as "firewalls" and physical separation of individuals and business units are commonplace in the aerospace industry to deal with situations such as this and BFGoodrich and AlliedSignal are both parties to such agreements.

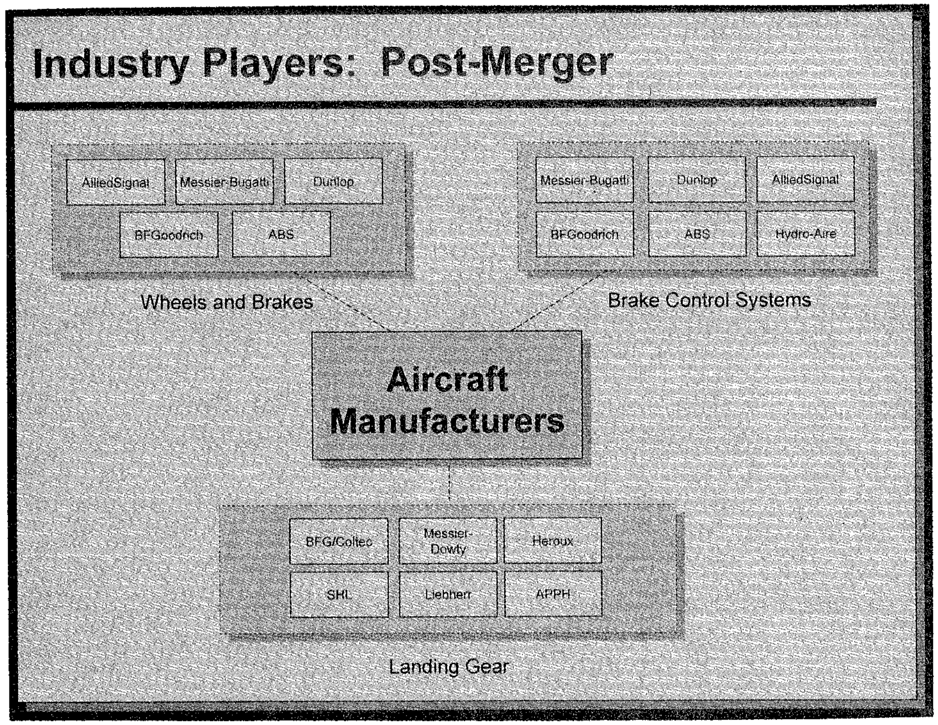
Wholly apart from future aircraft platforms, the merger will have no effect on AlliedSignal's ability to supply wheels and brakes to existing programs. As noted above, wheel and brake manufacturers make significant up-front certification payments to aircraft manufacturers, and often "give away" the original equipment wheels and brakes because so much of the revenue in wheels and brakes is in the aftermarket. Large commercial aircraft typically remain in service for 20 years or more. Thus, the aftermarket provides a lengthy and predictable stream of business that enables wheel and brake suppliers to forecast with greater predictability than many other aerospace suppliers the demand for their products. AlliedSignal currently supplies wheels and brakes on approximately 20 commercial aircraft, including the following:

Airbus A300	Boeing 707
Airbus A310	Boeing 717
Airbus A319/A320	Boeing 727
Airbus A330/A340	Boeing 737
Canadair CL-44	Boeing 747
Ilyushin IL-96M	Boeing 767
Tupolev TU 204-200	Boeing 777
BAC 1-11	Boeing DC-8
Dornier 328	Boeing MD-11
	Boeing MD-80

Without even taking the military market or new commercial aircraft types into account, these existing programs provide a predictable base of business that will be unaffected by the BFGoodrich/Coltec merger, and that should provide job security and stability here in South Bend. Both Boeing and Airbus recently released projections for the sale of new aircraft, and new aircraft types over the next decade. While those forecasts differ, both aircraft manufacturers project substantial overall growth in the size of the commercial aircraft fleet. This bodes well for well-run wheel and brake manufacturers here like AlliedSignal and BFGoodrich. The merger with Coltec will not affect the overall growth of the fleet and the growth of demand for replacement wheels and brakes.

Our goals are the same as those of the Subcommittee. We at BFGoodrich want to grow so that we can satisfy our customers, challenge, reward and retain our employees, and provide financial returns for our stockholders. We can only achieve these goals by providing innovative, quality, least-cost products to our customers consistently and timely. By becoming a stronger competitor, we help the economy and the work force in Ohio and in the other states in which we have operations.


Industry Players: Pre-Merger
AlliedSignal
Messier-Bugatti
Dunlop
BFGoodrich
ABS
Wheels and Brakes
Messier-Bugatti
Dunlop
AlliedSignal
BFGoodrich
ABS
Hydro-Aire
Brake Control Systems
Aircraft Manufacturers
BFGoodrich
Coltec
Messier-Dowty
Heroux
SHL
Liebherr
APPH
Landing Gear


Industry Players: Post-Merger
AlliedSignal
Messier-Bugatti
Dunlop
BFGoodrich
ABS
Wheels and Brakes
Messier-Bugatti
Dunlop
AlliedSignal
BFGoodrich
ABS
Hydro-Aire
Brake Control Systems
Aircraft Manufacturers
BFG/Coltec
Messier-Dowty
Heroux
SHL
Liebherr
APPH
Landing Gear