Testimony

of

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Good morning Madam Chairman, Ranking Member Maloney, Chairman Oxley, Ranking Member Frank, Majority Whip Blunt and Members of the Committee. My name is Paul Vikner, and I am President and CEO of Mack Trucks, Inc., headquartered in Allentown, PA. I am very pleased to be here today to represent Mack and its parent company, the Volvo Group of Sweden. In addition to my responsibilities at Mack , I also serve on the Volvo Group Executive Committee, the top management body for the parent company, which is a global leader in commercial transportation solutions. I'm also pleased to say that the Volvo Group is a member of the Organization for International Investment (OFII), an association representing the interests of over 140 U.S. subsidiaries of companies based abroad. In fact, I am in Washington today to attend OFII's annual CEO Conference.

My goal today is to share the experience that Mack has had with regard to the benefits of foreign direct investment – also known as "insourcing." And I would like to provide you the additional perspective of a global corporation that has the ability to choose where in the world to invest its capital. I also want to share with you some of the results of OFII's annual CEO Survey – which was released today and outlines our view of the United States as an attractive location for capital investment.

I want to say at the outset that I have no personal expertise in the workings of the Committee on Foreign Investment in the United States (CFIUS) over which this Committee has jurisdiction. Neither Mack nor Volvo has ever had an acquisition in the United States that falls within the realm of national security, and therefore we have not been through a review by CFIUS. Moreover, on behalf of myself and the thousands of proud Americans working for Mack, we fully support the appropriate and thorough oversight of these situations to ensure the security of our nation and its people. At the same time, I believe we all recognize the need to establish the right balance between managing national security risk, and preserving the benefits of an open investment policy that attracts international capital and provides jobs for American workers.

My hope is that my testimony will help Members of this Committee as they consider this issue, by providing insight on how an American company like Mack specifically benefits from foreign investment. I believe that the Mack/Volvo situation is an excellent example of the overall benefit the United States and its people can derive from greater foreign direct investment in the U.S.

About Mack and Volvo:

The Mack truck is one of the few products that has achieved iconic status in American life. Over the last 105 years, the Mack name has come to symbolize some of the best characteristics of the American character – strength, durability, and dependability. Our products have done the job for our customers in war and peace, in good economic times and in challenging ones, and in step with a society that has traveled from the age of the horse-drawn carriage to the technological marvels that are today's cars and trucks.

I could go on and on about our company's history – its legacy of technological advancement, the extraordinary list of projects around the country and the world on which Mack trucks have worked, and Mack's service to the defense of our country's freedom – all the way from the trenches of the First World War to today's global war on terror. But maybe the best summary of that history is also the simplest – when an American seeks to praise someone or something for surpassing quality and steadfastness, he or she often gives them the ultimate compliment: that they're "Built Like A Mack Truck."

Today, Mack Trucks, Inc. is one of North America's largest producers of heavy-duty trucks, sold and serviced in more than 45 countries through a worldwide network of more than 670 sales, parts and service centers. We're the leader in the construction, refuse and local and regional hauling segments of the U.S. heavy-duty truck market, as well as being number one among North American truck brands in exporting to other markets around the world.

But all that success over the last century did not make us immune to the pressures of change in our industry – and in the past 20 years our business has changed dramatically, especially in the rising cost of development and manufacturing of new products to meet emerging customer expectations, and more stringent regulatory requirements. It became very clear to us that a truckmaker with a regional focus, like Mack, would not be able to compete – or in fact survive – in the increasingly global marketplace.

In 2001, Mack was acquired by the Volvo Group, a publicly held company headquartered in Gothenburg, Sweden. With 2005 sales of approximately $US 31 billion, Volvo's business areas include heavy trucks, buses, construction equipment, marine and industrial drive systems, aerospace, and financial services. The Volvo Group manufactures products in 25 different countries and sells in more than 185 nations. For your information, Volvo Cars is no longer part of the Volvo Group, as the unit was sold to the Ford Motor Company in 1999. Volvo Group shares are listed on NASDAQ. Roughly 14% of Volvo's shares are owned in the United States, and one of the ten largest shareholders in Volvo worldwide is the U.S. money manager Dodge & Cox.

Last year, the Volvo Group's consolidated operations in North America, which include Mack, amounted to almost $8 billion in sales, and we employ about 12,000 people in 19 states – including manufacturing operations in Pennsylvania, Maryland, Virginia, North Carolina, Tennesee and Connecticut. The Volvo Group is the United States's leading exporter of heavy-duty trucks and components, shipping more than $500 million in products to foreign markets in 2004.

The Volvo Group's purchase of Mack gave it a marquee North American brand, recognized for its 100 years of industry leadership and outstanding American work force. And for Mack, the alignment with a global partner has provided (and continues to provide) access to the resources we need to ensure that we continue to meet and exceed the expectations of our customers in the future.

Under the Volvo Group's ownership and financial backing, Mack has strengthened and expanded its North American operations. Our manufacturing operations in Macungie and

Middletown, Pennsylvania, and in New River Valley, Virginia have been upgraded – not just in terms of productivity, but also in terms of environmental responsibility, quality and workplace safety. Our distributor network throughout the U.S. and Canada – and our nationwide parts and service operations – have also been strengthened significantly, giving us the opportunity to compete in areas beyond our traditional business segments. And most important for the future, the partnership with the Volvo Group has made possible the most extensive and rapid product renewal in the history of Mack – a complete line of new and improved truck models, chassis and powertrain systems designed to return greater value to our customers now and in the future.

Speaking of powertrains, allow me to bring to your attention one of the Volvo Group's most significant investments in its U.S. operations – our state-of-the-art engine development and production facility in Hagerstown, Maryland. Mack has had an engine plant in Hagerstown since 1961, and has been one of the largest employers in the western part of the state since that time.

In 2002, Volvo faced a major decision about allocation of resources to new production and research capability in engines and powertrains. After thorough investigation and debate, Volvo's Board of Directors decided to invest an additional $150 million in the existing Hagerstown facility, in order to create a North American "Center of Excellence" for heavy-duty powertrains. Highlights of the new facility are:

1. By 2007, this plant will be producing a totally new product line of clean diesel engines that meet some of the strictest environmental standards in the world.
2. These "Made in the U.S.A" engines, based on a common global platform, will power all Mack and Volvo brand trucks assembled in North America..
3. Prior to this major investment in Hagerstown, Volvo brand truck engines were imported from Sweden. But as of January 1, 2007, these engines will be completely assembled here in the United States, which will take six to eight weeks off the production lead time for Volvo brand trucks produced in the U.S.
4. Another significant benefit derived from this investment is that our new engine development laboratory in Hagerstown will be directly linked to the global research and

development efforts of Volvo Group -- the largest heavy-duty diesel engine manufacturer in the world today.

Please keep in mind that the Volvo Group's decision to invest in Hagerstown was not a foregone conclusion. Volvo investigated relocation of its Hagerstown operations to other locations, many of which were outside the U.S. However, our senior management ultimately concluded that the Hagerstown facility was the best place to invest. This decision was based on the following factors:

- A hardworking and loyal workforce with extensive diesel engine knowledge;
- A highly experienced and qualified team for research and development (300 engineers);
- Good support from federal, state and local authorities;
- A good logistical location (access to customers, suppliers, harbors, etc.);
- Good relations with the local/national labor organizations;
- A stable, non-discriminatory legal environment;
- And, a welcoming environment in the U.S. for foreign investment.

<u>The Benefits of Foreign Investment In The U.S.</u>

The story of Mack and Volvo is but one positive illustration of the significant benefits that the U.S. economy derives from international investment. According to the most recent government figures, the benefits of foreign direct investment to the U.S. economy are clear:

- U.S. subsidiaries employ 5.3 million Americans and operate in all 50 states.
- U.S. subsidiaries support an annual payroll of $317.9 billion.
- Average compensation per employee is $60,527 – 34% more than the average compensation at all U.S. firms.

- U.S. subsidiaries heavily invest in the American manufacturing sector. Thirty-four percent of the jobs at U.S. subsidiaries are in manufacturing.

- Contrary to many people's assumptions, these companies don't just invest here to access our market. U.S. subsidiaries account for over 21% of all U.S. exports.

- New foreign direct investment (FDI) in the U.S. totals $79.8 billion, an increase of $16.2 billion or 26 percent over the previous year.

- U.S. subsidiaries reinvested $45 billion in their U.S. operations. In other words, profits earned here, stay here.

- U.S. subsidiaries spent $29.5 billion on U.S. research and development activities, up $2 billion from the previous year.

- Ninety-four percent of total assets owned by foreign companies are from OECD countries.

- Ninety-eight percent of U.S. FDI is from private sector firms – only two percent of total direct investment (*assets*) is owned by companies that are controlled by foreign governments.

- On the other side of the coin, American investors increasingly are participating in the global economy. Through their mutual funds and pension funds, Americans now hold over $2.9 trillion in foreign equities. The percentage of U.S. shareholders in the Volvo Group is 14%; and in companies like Nokia, the percentage is as high as 40%. I believe that direct foreign investment in the U.S. by global companies is a factor in these investment decisions.

- And of course, U.S. managers are playing important policymaking roles in global companies, reflecting the importance of this country as a manufacturing location and a major market. I've noted that I'm proud to serve on the Volvo Group Executive Committee, which oversees activities of the entire company around the world. Similar situations can be found in many global companies today. And in fact many of my colleagues at OFII member companies have gone on to lead their company's worldwide – Don Shepard at Aegon, Klaus Kleinfeld at Siemens and Marjorie Scardino at Pearson, just to name a few.

Results of the *OFII CEO SURVEY*: Competitiveness of the U.S. as a Location for Investment

Today the Organization for International Investment released the results of its annual CEO survey regarding the competitiveness of the U.S. as a location for business investment. I want to mention a couple of the results because I think that the views of this group of CEOs regarding how the U.S. is perceived around the world as a location for investment is quite relevant to your hearing.

Ongoing foreign investment in the United States is not a foregone conclusion. Changes in policy, perceptions of hostility to foreign investment, and basic economic factors all go into the decision about whether to locate that new plant in one of the 50 U.S. states, or in a province of Canada, or China. Each of my fellow CEOs is engaged in a constant battle for allocation of scarce resources with colleagues who run operations in Europe, Latin America or Asia. This survey is the only quantifiable measurement of where we think the U.S. is strong, and where it needs to improve.

Let me give you a few highlights of the Survey results:

- First, OFII CEOs maintain a “bullish” investment outlook for the United States, and are focused on growing and expanding existing operations.

- Respondents report that their employment levels in the U.S. will continue to increase, or at least maintain current levels.

- The main reason companies plan to maintain or increase their U.S. investment is the quality of our workforce. A majority of respondents believe that a “knowledgeable/skilled workforce” is more important than labor costs when making an investment decision.

- But the United States continues to receive poor marks for high cost basis of operations – health care costs and the legal environment being the main concerns.

- When asked where else their companies are investing, China remains the leading alternative.

That's just an overview, and I should mention that full results of the CEO Survey are available on OFII's web site at www.ofii.org.

Conclusion

In conclusion, I want to again stress the importance of direct foreign investment to my company. Simply put, the commitment of resources by our parent company is a major reason that Mack is in a position to compete in the challenging truck market of the future. Because of that direct foreign investment, the quintessentially American business icon of the Mack Bulldog can continue to contribute to the economic health of our nation, as it has for more than a century.

I also want to again emphasize that both Mack and the Volvo Group are fully committed to the concept that national security is any nation's first priority. But we also believe it must be managed alongside other important national priorities. In 1988, when Congress enacted the Exon-Florio statute that vested power in CFIUS, it struck a balance between two interrelated priorities: national security protection, and the economic benefits of an open investment policy.

The business community has a strong interest in making sure that both the public and policymakers have confidence in the CFIUS process. OFII and other leading business groups like the U.S. Chamber of Commerce, the Business Roundtable and the Financial Services Forum have engaged Congress in a discussion of those measures that would improve the CFIUS process while not unnecessarily raising barriers to foreign investment, and I believe these organizations are making an important contribution to your consideration of these issues.

Madam Chairman, thank you again for calling this hearing. On behalf of Mack, the Volvo Group, and the Organization for International Investment, we look forward to working with you and your colleagues in this important area.