

Components: Feature

Expert opinion: Can automotive suppliers avoid imminent crisis?

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With lobbying by auto supplier representatives in North America for federal support apparently moving up a gear, one key tier 1 supplier at least – Delphi Corp – appears to have secured itself a useful boost to its short-term liquidity. With the Original Equipment Suppliers Association (OESA) president Neil De Koker referring to the supplier sector as possibly "on the verge of a meltdown of historic proportions," Delphi has been able to avoid its own potential meltdown as it completes its 40th month in Chapter 11 bankruptcy protection. But Delphi's good fortune contrasts with escalating liquidity problems among lower-tier suppliers, who are about to take a significant cash-flow hit from the extended OEM factory shutdowns over the Christmas period and continuing production weakness in early 2009. Estimates suggest that, in North America at least, payments from OEMs to suppliers could be one-third to one-half the levels normally seen in the February/March period, a major blow to vendors facing reduced or withdrawn credit lines.

Delphi's latest 8-K document, filed with the SEC on 4 February, shows that, once again, the company's debtor-in-possession (DIP) lenders and former parent GM are riding to the rescue via an amendment to the 'Accommodation Agreement' concluded in mid-December 2008, which provided a credit facility for the supplier through 30 June 2009. While the details of this are for financial engineering and legal specialists only, a key clause was that Delphi was assured access to up to US\$600m in additional liquidity through June 2009 (5 May if certain 'milestones' not met) through a combination of US\$300m in additional payments (credit facility) from GM and the temporary acceleration of US\$300m in payments from GM during March, April and May of 2009. The new amendment will deliver a speeding up of up to US\$100m of these payments to Delphi as well as acceleration of the payment of certain payables, which could result in up to an additional US\$300m of liquidity for the supplier by the end of May.

Against a background of GM experiencing its own financial meltdown and appearing to play hardball with some wobbling suppliers (removing tooling to other more financially secure vendors in some cases), this generosity undoubtedly reflects the OEM's continued reliance on Delphi. Sales to GM accounted for 30% of Delphi's revenue in the first nine months of 2008, equivalent to US\$4.5bn. But one thing seems certain, other GM suppliers, even including the other 197 direct material suppliers (out of a total of 3,387) that ship to GM locations in all regions, won't secure similar acts of

munificence. GM has acknowledged supply base concerns of late and worked with various distressed suppliers to manage risk and to facilitate sales and restructuring, but its massive total of direct material suppliers, plus 27,836 indirect/M&E suppliers and a further 574 classed as logistics suppliers, means such support has to be clearly focused. Unsurprisingly, the OEM has recently noted, 'we will look after our best suppliers, which will result in supplier compression.'

This inability on the part of financially-stressed OEMs to indulge in wholesale propping-up of the supplier network means the lobbying referred to above takes on even more significance. Current reports suggest that OESA and the Motor & Equipment Manufacturers Association (MEMA) are now lobbying for up to US\$20.5bn in federal assistance. OESA had originally floated four federal assistance options but subsequently narrowed these down to two – the so-called Quick Pay Program and Government Guarantee of Supplier Receivables. The former would operate via government funding to GM and Chrysler, allowing them to move to ten-day payment terms, while the latter would be focussed on government backing of current and forward OEM receivables.

Perhaps surprisingly, similar intense lobbying for suppliers appears to be absent in Europe and national government, rather than EU-wide, strategies appear to be sowing the seeds of conflict rather than facilitating harmony. While senior European Commission officials such as Industry Commissioner Gunter Verheugen fret about member states resorting to protectionist measures to shore up national automotive sectors, this is indeed what appears to be happening. Reports suggest the French government will offer the domestic OEMs soft loans and loan guarantees in return for which they would support local suppliers through a variety of means, including purchase volume commitments. Belgium government officials have already expressed concern that assistance from the German government to its national auto sector could endanger assembly facilities in Belgium.

But this lack of consensus and potential for conflict shouldn't hide the real problems being faced by the European auto sector, not least in the supplier industry. Bankruptcies, including those of Wagon Automotive, TMD Friction and Edscha have already been seen and others narrowly averted. CLEPA, which represents supplier interests in Europe, has a key part to play in highlighting these problems, although its current lower-key lobbying seems to contrast with the higher profile role being taken by OESA and MEMA in the US. CLEPA's CEO, Lars Holmqvist, has indicated that he believes as many as 500 European suppliers could face bankruptcy in the near future, especially as similar cash-flow challenges to those appearing in the US, really start to bite in Europe through February and March. He believes the answer is for national governments and the European Commission to provide the sector with at least €25bn of loan guarantees to keep short-term financing threats at bay.

It may seem ironic that a major supplier in its fourth year of bankruptcy can secure additional assistance with short-term liquidity from an OEM that has itself only avoided similar bankruptcy via a US government bailout. One North American supplier at least appears to have secured access, albeit indirectly,

to much-needed liquidity from the federal government and US taxpayers. However, the real question remains as to whether lobbying on behalf of the entire US and European supplier sectors can deliver similar, and apparently increasingly vital, assistance on a broader scale. On current form, the odds of this happening appear to be significantly more favourable on the western side of the Atlantic.

Source : <http://www.automotiveworld.com/ACM/content.asp?contentid=74459>