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Europe's Auto Suppliers Press EU For New Financing Tool

By Ola Kinnander
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STOCKHOLM (Dow Jones)--Europe's auto suppliers, hundreds of which are on the brink of bankruptcy following the sharp slowdown of car production, have started pushing for the European Union to set up a EUR3 billion fund that they could tap into for quick financing.

The European Association of Automotive Suppliers, known as CLEPA, met Friday in Brussels with dozens of representatives of European states and key EU agencies to advocate a plan that would let auto suppliers that are owed money by car makers get paid quickly.

"We discussed a system to get a liquidity injection [for suffering suppliers], and to get it done pretty fast," CLEPA's Chief Executive Lars Holmqvist said in a phone interview.

Car makers can take months to pay bills sent by suppliers. The lag time ranges between 30 days, as is common in Germany, to 180 days in Italy. On average a European supplier gets paid in about 90 days, according to CLEPA. That's fine under normal circumstances but with many suppliers now running out of cash they need to get paid quickly, Holmqvist said.

Commercial banks have more or less frozen lending to auto suppliers because of the perceived high risk involved, he added.

The system that CLEPA, which represents 3,000 European auto suppliers, advocates is called reverse factoring: When a supplier sends a bill to a car maker, the latter ensures the invoice is accurate and then forwards it to an agency that has been funded by the EU member states. The agency would then quickly pay the bill to the supplier, and the car maker would later pay the agency.

"This would transform the bills to liquidity immediately," Holmqvist said.

The European Investment Bank would be a strong candidate for running the program, he said. EIB Vice President Eva Srejber declined to comment on the plan.

Three commercial banks are on board with the plan because they "want to be part handling this," he said. He declined to identify the banks but said they are "very big."

CLEPA wants the fund to be about EUR3 billion in size. The auto suppliers "need, in principle, EUR3 billion in cash. That's the amount we've asked for," he said.

Sales for European auto suppliers have typically fallen between 25% and 35% from a year ago, Holmqvist said. Of Europe's 5,000 or so auto suppliers, 200 have filed for bankruptcy since December and 700 to 800 suppliers are now facing "acute liquidity problems," he said. The summer vacation period, which most car makers are extending because of weak sales, will exacerbate the problem for suppliers.

Holmqvist said the state representatives he met with on Friday said they would discuss the plan with their respective governments. Also, EU representatives said they would study the plan to ensure it complies with rules governing competition and state support. He's optimistic it can clear the hurdles over the next several weeks.

"I think it's more than 50%" chance this will happen, he said.

Web site: www.clepa.eu

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