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Suppliers on edge as Big 3 cut vendors

Bryce G. Hoffman / The Detroit News

The Obama administration, deeply involved in restructuring the automobile industry, is ignoring pleas for help from parts manufacturers -- in part because Detroit's Big Three automakers are pushing for supplier consolidation.

A source familiar with the situation says all three companies have asked the White House to make more money available for suppliers, but not all suppliers.

An administration official on Wednesday denied that recommendations from the carmakers guided its decisions on whether or not to aid suppliers. "On suppliers, the auto task force is engaged in wide consultation, and (the task force comes) to our own independent judgments," said the official, who spoke on condition of anonymity.

On Wednesday, Ford Motor Co. said it is stepping up its supplier consolidation effort and will cut the number of parts makers eligible for future contracts in half by the end of the year. General Motors Corp. plans to cut its supply base by 30 percent over the next two years, and Chrysler shed about 100 suppliers before emerging from bankruptcy as the new Chrysler Group LLC.

"The industry needs to be restructured," Ford global purchasing chief Tony Brown told The Detroit News. "Capacity needs to come out of the system. The issue isn't, 'Does it need to?' It's 'How does it?' Does it come out cataclysmically or in an orderly fashion? We'd certainly like to see it come out in an orderly fashion."

While Ford and the other automakers are sympathetic to the plight of suppliers, none of them publicly supported the request by the Original Equipment Suppliers Association for \$10 billion in federal loan guarantees. That request was rejected last week by the U.S. Treasury Department, and the OESA is now urging its members to lobby lawmakers directly to support that request.

"If we do nothing, the next 60 to 90 days will be chaotic," said OESA President Neil De Koker. "We'll see increased failures."

Ford already is. Brown said the number of Ford suppliers that are bankrupt or in serious financial distress has doubled over the past year.

But he said Ford and other automakers are in almost daily contact with the Obama administration, keeping the government's auto task force informed about any supplier issues that emerge. The task force has stressed that its job is not to keep individual suppliers out of bankruptcy, but to preserve the supply chain as a whole.

Brown said the administration's approach is working, so far.

"The task force has made a clear statement about the strategic importance of the industry, and we're confident that they're paying close attention to what's going on in the supply base," Brown said. "If necessary, they will take what they deem is appropriate action. They get to make that judgment call."

But restructuring expert Van Conway of Conway MacKenzie Inc. said the government will fail if it tries to pick winners and losers among suppliers.

"I don't think anybody disagrees that consolidation is necessary. But you can't click your fingers and make that occur," he said. "If the government gives the money to everybody, the bad ones will still go out of business anyway, but they'll do so peacefully. Otherwise, you have Armageddon potentially."

To avoid that worst-case scenario, Brown said Ford has been working with other automakers "where appropriate" to ensure the flow of parts.

"We've collectively managed to prevent a major event," he said, adding that both foreign and domestic manufacturers have participated in those discussions, including Chrysler.

"We are aware that a large percentage of our suppliers also have business with other major (original equipment manufacturers)," said Chrysler spokesman Max Gates. "This is a factor in the evaluation of our relationships with suppliers."

GM spokesman Dan Flores said the firm has not participated in the talks. Though he declined to say why, sources familiar with the situation told The News that GM's recently departed head of purchasing, Bo Andersson, was concerned the talks could raise anti-trust issues.

"We clearly understand that these are very difficult times for everyone in this industry," Flores said.

GM and Chrysler signed up for an earlier Treasury Department program that made \$5 billion available to speed payments to suppliers, though Chrysler has since opted out. Ford, which has not taken federal loans as part of the auto bailout, is helping critical suppliers like Visteon Corp. out of its own pocket.

De Koker said the government must do more, and he stressed that time is running out. Many of his members, already reeling from an industry-wide drop in vehicle sales, were forced to shut down their factories when GM and Chrysler idled plants nationwide in advance of their bankruptcies.

Now, many of those plants are coming back online. But since automakers do not pay for parts until after they have shipped, suppliers are hard pressed to come up with the money they need to hire back workers and get their own lines rolling again. Normally, they would draw on their credit lines to cover these costs, but De Koker said the banks have turned their backs on parts manufacturers.