AMT
The Association For Manufacturing Technology
Over 100 Years of Building Global Productivity

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"The Role of Small Business Suppliers and Manufacturers in the Domestic Auto Industry"

Madam Chairwoman, Members of the Committee, thank you for this opportunity to testify before you on the impact the American automakers' crisis is having on other small American manufacturers – as well as the urgent need for a fair distribution of temporary assistance to auto suppliers up and down the supply chain.

I am here both for myself, as the owner of a small manufacturing company, and as a member of the Board of Directors for AMT – The Association For Manufacturing Technology.

AMT represents more than 400 manufacturing technology providers located throughout the United States – including almost the entire universe of machine tool builders who manufacture in our country. Our members cover the full range of manufacturing – from design, automation, material cutting and forming, to workholding, cutting tools, assembly, inspection and testing, and communications and control. The overwhelming majority of our members are small businesses like mine.

Manufacturing technology provides the tools that enable production of all manufactured goods. These master tools of industry magnify the effort of individual workers and give an industrial nation the power to turn raw materials into the affordable, quality goods essential to today's society. In short, we make modern life possible.

Manufacturing technology provides the productive tools that power a growing, stable economy and a rising standard of living. We represent an industry with a proud history that dates back to the founding of our country, and today, we are recognized worldwide for the advanced manufacturing technology we produce for a wide range of industries, including the automotive industry. These tools make possible modern communications, affordable agricultural products, efficient transportation, innovative medical procedures, space exploration, and the everyday conveniences we take for granted. They also create the means to provide an effective national defense.

About two-thirds of AMT's members produce the manufacturing technology present in every tier of the automotive production chain. We make the products that the Detroit auto companies use to assemble and test their products. We supply the products that Dana, Eaton and other Tier 1 producers use to build chassis, engines, and body panels. And we provide the products used to produce wheel rims, pistons, bearings, and other car components.

Manufacturing technology suppliers are a small – yet critical – component to the production of next generation automobiles. Without us, you can't manufacture an "American-made" car. But unless steps are taken immediately to help the small manufacturers that rely heavily on the U.S. automakers as customers, many of them, already on life support, will take their last breaths. That will set off a domino effect that will reach beyond General Motors' and Chrysler's suppliers to Ford and the transplants – and even further to the wide range of industries, such as aerospace – companies that AMT's members also supply. If that happens, tens of thousands of American jobs in the auto sector alone will be lost, and our country will lose the ability to produce the new fuel-efficient cars of the future. Under that scenario, "Detroit's Big Three" and "America's Automobile Industry" will become sad chapters in an American history book.

My own company is comparatively small. We have 33 employees in Kansas and nearly 50 workers at our foundry in Arizona – and our ties to U.S. automakers are very indirect. We essentially are at the bottom of the supply chain, producing products that others use to produce products that eventually end up with the automakers. But even we, at the moment, are seeing a drop of around 20 percent of our business because of the turmoil at the top of that chain. And those AMT companies that are more directly, or absolutely, tied to Detroit are seeing a near-collapse of their customer base – something that has nearly dried up any hope of obtaining credit – for whatever little credit still exists – and that has led to deep fears that many of these companies may not survive.

Structured Chapter 11 Bankruptcy

Adding to these fears is the prospect that GM will be forced into bankruptcy right on the heels of Chrysler's filing – and whether that move would put the final nail in the coffin for countless supplier companies. Suppliers did not anticipate that both companies would shut down production for three months or perhaps more.

Before this crisis began, auto suppliers accounted for over 600,000 of the more than two million American jobs tied to the auto industry. That number continues to decline, with layoffs mounting as companies struggle to stay afloat. Some companies have been unable to survive, and those workers will not be called back to work. Since last fall, the manufacturing technology industry has lost two to three companies per month to the economic crisis. Most of those shuttered small businesses were linked to the auto industry.

Some will argue that suppliers should have been better prepared for this crisis, just as they argue that Detroit's Big Three should have had a business plan in place to deal with a sudden and dramatic decline in orders the likes of which have never before been felt. However, so many small businesses don't have the capability to strategically plan and adjust to a 50 percent drop in business volumes in just over a 90-day period (October 2008 to January 2009). This type of breakdown in our financial services sector has never before been seen in our global competitive market.

I understand the Administration is strongly favoring facilitating a structured Chapter 11 bankruptcy for General Motors. But before going down that road, I would strongly urge Congress and the Administration to carefully consider the consequences to the entire automotive supply chain before making a final decision. Another bankruptcy would be a devastating blow to an already weakened manufacturing sector. Many more manufacturing technology suppliers would not survive, taking with them the skills and the trained workers necessary for a world-class automobile industry in America.

Consider the direct effect of a GM Chapter 11 bankruptcy on AMT members, the manufacturing technology suppliers. These companies supply manufacturing systems and machines that can range in value from a few hundred thousand dollars to as high as $20 million or more. The design and manufacturing duration of these systems and machines, from order to shipment, can range anywhere from 25 weeks to as much as a year. The payment terms for these systems are generally 90% at shipment and 10% following a comprehensive acceptance runoff at the customer facility. During the lifetime of the contract, the supplier is forced to borrow large amounts to finance this work in progress (WIP). As an example, one AMT member alone currently has a WIP of over $12 million directly from GM orders and an additional $7 million for product shipping to Tier 1 suppliers of GM. That is typical for companies in our industry.

A recent survey of AMT members suggests that our manufacturing technology suppliers have between $1.2 and $1.6 billion currently tied up with the car companies in the form of contracts, WIPs, and receivables, averaging about $7 million per supplier. If GM files Chapter 11 with no special structure to protect AMT suppliers, many of these suppliers will likely be forced into bankruptcy as well. Should GM reject current contracts for products ordered but no longer needed because of declining auto sales and discontinued models, the consequences would be devastating. The salvage value for these products is pennies on the dollar, representing millions of dollars lost for suppliers. Voided contracts coupled with the cancellation of amounts due for open invoices at the time of the GM filing would be more than most of these companies could absorb.

Products already in use on the factory floor present problems as well. Once any order is shipped, it typically requires service, parts and applications engineering to maintain it throughout its useful life. Our companies cannot afford to continue to support the manufacturing process of companies that pose a financial risk. If we are forced to stop the flow of these services because of the increasing risk of not being paid, production will come to a halt throughout the supply chain.

In the wake of Chrysler's bankruptcy and a possible GM filing on the horizon, auto suppliers desperately need a mechanism for guaranteeing receivables, changing payment schedules for work in progress, and making credit available to the entire production chain, because the health and viability of each link in the chain are essential to the survival of the whole automotive industry. A recent announcement that GM will seek protection for its critical suppliers in the event of a bankruptcy is greeted with more skepticism than relief by suppliers in my industry, because, thus far, our members have not been recognized as critical by the car companies that depend on us to assemble and test their products.

U.S. Treasury Auto Supplier Support Program

Madam Chairwoman, on behalf of AMT, and myself, I applaud the President's Auto Task Force for recognizing the role that suppliers play in the ultimate success of America's automobile industry. The recent launch of Treasury's auto supplier support program is an important first step in protecting automotive suppliers, especially in the event of a Chapter 11 bankruptcy filing. The $5 billion program is meant to stem the imminent bankruptcies of many Tier 1 suppliers as delayed payments and cancelled orders mount. But while the program will help many component parts suppliers, it does not reach nearly far enough across and down the supply chain.

It is critical that manufacturing technology suppliers like AMT's members be able to take advantage of the supplier support program where payments are guaranteed, and we are able to sell our receivables. But that is not happening. Inexplicably, AMT Tier 1 suppliers have been left out of the program. The car companies have interpreted the program as protection for companies who supply them on a flow basis rather than on a transaction basis. This leaves out AMT suppliers whose commitments come one transaction at a time – amounting to essentially an "all or nothing" agreement with the auto companies. There is no opportunity to adjust shipments based on health of customers or payment integrity as with the flow suppliers. There is only one opportunity and that gamble can be large.

I cannot believe that this is what the President's Auto Task Force had in mind when it created this program – but it is how the carmakers have chosen to administer it. And that, simply, makes no sense. You cannot have a viable U.S. auto industry if you only support one segment of the supply chain. Car parts suppliers are no more critical to the final product than are suppliers who provide the manufacturing technology to bring all the parts together. Yet manufacturing technology suppliers are not deemed "critical suppliers" for this program by the automakers – which explains my skepticism that we would be viewed as critical suppliers in a Chapter 11 filing if that determination is left up to the car companies.

Manufacturing technology suppliers are critical to the production supply chain. They are found in every tier of it. AMT Tier 1 suppliers face many of the same issues as the Tier 1 component suppliers – and I would argue that they are even more vulnerable. The working capital needed to fill even one order from the car companies or Tier 1 suppliers can run in the millions of dollars. AMT members are making decisions on whether to accept, finish, or ship orders on a daily basis, because we can't afford a cancellation. Delays and cancellations have already forced the AMT suppliers to stretch out their payment terms to their component supplier base. If our member's are ultimately forced out of business, many component supplier bankruptcies will follow.

Moreover, Tier 2 and Tier 3 suppliers continue to be overlooked in auto industry restructuring programs. The supplier support program, administered up and down the supply chain, could help companies that may not otherwise weather this storm. Some of these companies, like the AMT Tier 1 suppliers, are critical suppliers. Without them, there will be no next generation, fuel efficient cars in America's future.

Without them, in fact, a manufacturing base much broader than just the auto industry would be affected.

Most of AMT's member companies are small business suppliers that support not only the auto industry but a significant portion of our entire manufacturing economy. Small manufacturing businesses account for 59 percent of the value-added in the manufacturing sector and 72 percent of the employment in manufacturing. The entire manufacturing sector rests in large part on these small suppliers, and it is these companies that have the fewest resources to draw upon when the business cycle spirals downward. Their primary resource is credit.

Tight Credit - SBA's 7(a) Loan Program

Unfortunately for many small automobile suppliers, banks are eliminating lines of credit, significantly raising rates and, in extreme cases, threatening liquidation, or seizing receivables, because of these companies' ties to the auto industry. While the situation is dire for AMT's members, it is just as bad for our customers who can't get a loan for the products to fulfill existing and new contracts. As a result, nearly 60% of our membership have or will begin self-financing sales of their products – a recourse that obviously can't continue for very long. These companies simply don't have the resources.

Congress and the Administration should move immediately to loosen credit to small business throughout the manufacturing sector, but particularly to those companies with ties to the auto industry. We urge you to make certain that credit is flowing *through* the banking system, or around it, rather than be supplied to, but hoarded, by banks.

The Small Business Administration's 7(a) loan program is one area of opportunity for small business auto suppliers in these troubled times. AMT applauds the efforts of Chairwoman Velázquez, the Committee, and the Administration in expanding the SBA's 7(a) loan program as part of the American Recovery and Reinvestment Act of 2009 (ARRA). However, higher guarantees and lower fees alone will not enable many small AMT suppliers to obtain urgently needed funds to stay in business and preserve jobs.

Unfortunately, small manufacturing technology suppliers frequently find that they do not qualify under the current terms of the program. Given the extreme downturn in the economy, most small businesses, especially those tied to the auto industry, have suffered a dramatic decline in business and would not, in the near term, be able to meet normal credit standards. They simply do not have any cash flow under current circumstances. Therefore, AMT urges Congress to reprioritize the metrics by which decisions to provide 7(a) loans are made – away from cash flow as the primary consideration. We suggest that they should be shifted to other elements that more fairly judge the long-term viability of a company, factors such as backlogs, assets, employment levels, and historic performance. Those would be fairer criteria by which to judge the long-term viability of most small businesses.

The Future – The Manufacturing Technology Industry Should Not be Overlooked

Looking ahead, I urge members of this Committee, the entire Congress, and the Administration not to overlook manufacturing technology suppliers up and down the automotive supply chain as new programs are developed to speed the manufacture of the fuel-efficient, environmentally friendly cars of the future. Programs like the Department of Energy's Advanced Technology

Vehicle Manufacturing loan program are out of reach for most of AMT's members. Not only does the long and complicated application process discourage small automotive-related companies from applying, but the program's focus on the upper tier of the supply chain excludes most AMT members from eligibility. Even though advanced technology vehicles cannot be produced without incorporating the latest developments in manufacturing technology, ironically, the manufacturing technology producers are not eligible under the current program. This current standard defies logic and needs to be revised.

The new Advanced Energy Projects Investment Tax Credit established by the ARRA is another example where AMT suppliers could once again be overlooked. While income tax credits for production of energy from renewable sources have existed for several years, no previous tax credits specifically encouraged development of a domestic manufacturing base to support the renewable energy industry. The 30% investment tax credit for facilities engaged in the manufacture of advanced energy property is available only for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy, through a competitive bidding process. These projects re-equip, expand, or establish manufacturing facilities used in the production of renewable energy. Presently, it is unclear whether manufacturing technology producers will be eligible for the tax credit until Treasury releases the program regulations. While it is clearly congressional intent that the credit apply at any stage of the value chain, past experience has taught us that our inclusion in these types of programs should not be taken for granted.

Conclusion

As the automobile industry attempts to recover and rebuild, it will turn to manufacturing technology suppliers for help in producing globally recognized, next generation products. So, too, will the broad range of other industries we serve, such as medical equipment, pharmaceutical, construction, farming, and renewable energy, to name just a few. Yet these non-automotive industries will all suffer drastically if the auto industry collapses and if that collapse also brings about the collapse of manufacturing technology suppliers.

Even more important, however, are U.S. manufacturing technology suppliers' ties to our national defense. If we are not careful, the auto industry as well as most other manufacturing industries in America will have no choice but to look to foreign sources to provide the innovative solutions for which America has always been known. The competitive edge that U.S. manufacturers have enjoyed from "Yankee Ingenuity" will be forever lost – and, worse, America will be risking dependence on foreign sources to supply our national security infrastructure.

Madame Chairwoman, stabilizing the automotive industry and the industries up and down the supply chain is critical to our economy and to our defense industrial base. Immediate action is necessary in order to get the U.S. auto industry back on track, stabilize the crippled auto supplier base, and save hundreds of thousands of American jobs. And that means helping ensure the survival of all the tiers in the supply chain, not just the top one.

As you know, America's small businesses have proven more nimble at adapting to changing market needs. We can move America's automobile industry forward, but not without help. Every member of AMT manufactures products in the United States, and our products are located in factories around the world. Each of our companies is fiercely competitive and determined to ensure that American manufacturing technology remains preeminent. Our skilled workers are the real drivers of technology for the cars of tomorrow. Moreover, it is our engineers who will help bring breakthrough technologies to our auto companies, so that America can compete as world-class leaders once again.

But these are the companies and the jobs that we stand to lose if the crisis in Detroit is mishandled. It is my hope that the Committee will become actively involved to ensure that small business and manufacturing technology are not forgotten in the effort to save the auto industry.

Thank you.