



**CANADIAN
TOOLING &
MACHINING
ASSOCIATION**

**EXECUTIVE SUMMARY SUBMISSION
- THE MACHINE, TOOL, DIE & MOULD SECTOR OF THE AUTO INDUSTRY -**

TO: HOUSE OF COMMONS SUB-COMMITTEE ON THE AUTO INDUSTRY
FROM: CANADIAN TOOLING & MACHINING ASSOCIATION
DATE: MARCH 11, 2009

Introduction:

The **CANADIAN, MACHINE TOOL, DIE & MOULD SECTOR** (“MTDM”) serving the automotive industry is comprised of some 300 small and medium sized enterprises that are largely family owned. The MTDM sector employs over 20,000 highly skilled Canadians and generates in excess of \$2 billion in sales per year to customers across North America and around the globe.

The MTDM sector produces tooling, which consists of dies for the production of metal stampings, moulds for the production of plastic parts, gauges for the production of quality verification, fixtures for component assemblies. and automation dedicated to specific components or assemblies. Without tooling, parts cannot be manufactured and vehicles cannot be assembled.

The Canadian Tooling & Machining Association (CTMA), with 170 corporate members employing approximately 14,000 Canadians in high value-added employment is, itself, a member of the International Special Tooling & Machining Association (ISTMA) with 30 countries as members.

We thank you for the opportunity to present our views before your recommendations are made on the automotive stimulus that is being considered by the Canadian government. On behalf of the CTMA and its member companies we wish to express our whole-hearted support of your proposed Automotive Assistance Package.

Recommendations:

Although our members produce tooling for virtually every sector in the manufacturing and resource industries, many of our members rely heavily on the automotive sector. The MTDM sector is sharing in the general economic downturn of the economy and currently remains viable within the North American automotive supply chain, but it can only remain viable if the automotive companies (Detroit 3), who are the ultimate owners/title holders of the tooling that is produced by the MTDM sector, pay their commitments in a timely fashion.

As part of the automotive supply chain, the MTDM sector is not requesting a financial bailout, however, we strongly encourage you to recommend that conditions be attached to the stimulus package that will ensure the Detroit 3 pay their outstanding and ongoing commitments to their tooling suppliers; thereby increasing liquidity in the Canadian MTDM industry and thus ensuring avoidable bankruptcies do not needlessly occur. For our members to be able to support the Detroit 3 in their turnaround the MTDM

sector will need to have some level of assurance that they will be paid in a predictable and timely manner for their products.

We request the committee be aware of the high value of tooling that our members have completed under purchase orders from the Detroit 3, but have not yet been paid for. Although this tooling and equipment is complete and production-ready, the unique Part Production Approval Process (PPAP) instituted by the Detroit 3 keeps these payment obligations off of their payable balance sheet (see Appendix A). Further, the title of the majority of these tools has already passed to the automotive companies without the payment process for these tools being initiated. In addition, almost all of these tools are more than 120 days past the completion date which has taken them off of the individual tool shops' recognized receivable list with their own bank which dramatically affects their borrowing capability. Due to these current conditions faced by our members, the CTMA is asking your committee to provide a mechanism by which these outstanding accounts of the Detroit 3 are paid in a timely manner from any financial assistance that the government provides.

Our second recommendation is to ask you to help improve the liquidity of the MTDM sector by reinstating insurance coverage – especially for tooling and equipment - through Export Development Canada (EDC) which has recently discontinued insuring receivables with the Detroit 3. The EDC's mandate needs to be expanded during this economic crisis in order to help cover domestic receivables for the Detroit 3 or another facility needs to be created to provide receivable coverage.

Over the long term, the laws, rules and regulations that allowed business to deviate from normally accepted practices must be reviewed and changed to prevent this from happening again. Since our sector has been one of the sectors most adversely affected by these practices CTMA would like to volunteer to serve on any committee or forum working to this end.

Tooling Proposal – Discussion Brief

The CTMA and its members fully support the proposal, supporting communications and wording outlined in the enclosed “Tooling Proposal - Discussion Brief” that has been submitted to your offices from the seven Windsor-based MTDM companies and their spokesperson Mr. Craig Wiggins, President, Tooling & Equipment Capital Solutions Inc. We believe this proposal to be a common sense solution and one that the government has every right to employ. Industry representatives would welcome an opportunity to meet further with government officials involved in the automotive assistance plan to help ensure that Canadian jobs are preserved.

Future of the Automotive & MTDM Industries

With senior levels of government in a position to invest in the Detroit 3 to support the automotive industry in Canada, please keep in mind that the survival and turnaround of the Detroit 3 is predicated on change and new production which, in turn, is based on new products. Every aspect of the Detroit 3 turnaround is dependent on the MTDM industry producing: state-of-the-art manufacturing technologies; machines and tooling to deliver these technologies; and the tooling required for the new products.

Many manufacturing jobs are dependent on the MTDM sector and the majority of manufactured products are directly or indirectly exported, thereby making considerable contributions to Canada's GDP. Due to the fact that the Canadian MTDM sector is diversified, it has been able to weather the current economic storm somewhat better than many other manufacturing sectors; however, a large portion of the MTDM sector is very dependent on the automotive sector and more specifically the Detroit 3 and with the

current situation as presented above, it is in jeopardy of financial failure. Any of these failures will have a domino affect within our sector and also the other manufacturing sectors that we serve.

We thank you for your consideration of our comments and we would be pleased to discuss them further with you at your convenience. Please feel free to contact us through the CTMA office at 140 McGovern Drive, Unit #3, Cambridge, ON N3H 4R7; Tel: (519) 653-7265; Fax: (519) 653-6764 or by email rcattle@ctma.com or lpayne@ctma.com.

Respectfully submitted,



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Enclosures:

- *Appendix A – Background Information and the Automotive PPAP Issue*
- *Tooling Proposal – Discussion Brief*

APPENDIX “A”
Background Information and the Automotive PPAP Issue

TIER 1 PART MANUFACTURER – “MIDDLEMAN” for TOOLING PROCUREMENT and OVERSEER OF THE OEM “RULES OF ENGAGEMENT”:

Over the past fifteen years the OEMs have gradually extracted increasingly longer payment terms for tooling produced from the MTDM Sector. They have accomplished this by having the Tier 1 parts supplier become a “Middleman” for acquiring the tooling, which has allowed the OEMs to reduce the number of suppliers with whom they must have direct dealings. The OEMs contract with a Tier 1 manufacturer for the following:

1. To supply parts (*either metal or plastic, as the case may be*), assemblies and/or sub-assemblies to the OEM according to production releases at a fixed price per piece for the life of the vehicle program;
2. To “source” tooling required for the production of parts, assemblies and sub-assemblies (*this reduces the number of vendors that the OEM must deal directly with, since they work through the Tier 1*) with the MTDM Sector;
3. To manage and oversee the tool build to ensure that the tooling is completed in a timely manner and that it is capable of meeting the OEM delivery requirements, in sufficient quantities, while meeting quality targets;
4. To receive the tooling from the MTDM Sector source, verify performance and submit data for final OEM Production Part Approval Process (“PPAP”), the event that confirms:
 - i) The tool is capable of meeting projected OEM demand for parts, and
 - ii) The part produced from the tooling meets quality expectations in terms of dimension and tolerance targets.

NOTE: The tooling, upon delivery by the MTDM Sector to the Tier 1 parts manufacturer, becomes the PROPERTY OF THE OEM who is the legal and beneficial owner of the tooling. The tooling is clearly stamped, tagged, painted or otherwise marked to clearly identify it as property of a particular OEM. The Tier 1 manufacturer has no ownership rights, rather they use the tooling to produce parts for the OEM as per their Parts Supply Agreement.

OEMs are paid within days of selling a vehicle to a retail dealership, and the Tier 1 parts suppliers are paid on average 45 days after shipment of their parts to the OEMs. The MTDM Sector companies are typically paid 5-18 months or more after the tooling is shipped to the designated production facility contracted by the OEMs to produce parts for their vehicle assemblies, since under the current Rules of Engagement, the MTDM Sector cannot invoice for completed tooling until successful PPAP with the OEM – the timing of this event is completely within the control of the OEMs, which history has proven is a “moving target”, that often results in long delays in receiving payment for the tooling by the MTDM Sector. **Current industry practice holds back 100% of the cost of the tooling until successful PPAP, even though the tooling was complete and production ready many months before the PPAP event.**

Current industry practice results in the smallest enterprise in the auto industry supply chain, those with the least capacity for accessing credit, financing billions of dollars of tooling owned by the OEMs, the largest enterprise in the auto supply chain, for contract cycles of up to two years or more. Because the cost of borrowing for the MTDM Sector is higher than that of the OEMs, the result is increased costs for Chrysler, General Motors and Ford.

Current industry payment practice for tooling provides **an opportunity for both the OEM and the Tier 1 parts manufacturer to leave the cost of tooling and the related financial obligation to the MTDM Sector tool builder off of their respective balance sheets until the tooling is actually invoiced by the tool source**. The MTDM Sector cannot invoice for tooling until an event, controlled by the OEMs has

been successfully achieved – PPAP. Therefore from project launch through to PPAP (the OEM driven event that triggers invoicing) the MTDM Sector Company must carry the investment in tooling as Work-in-process inventory (WIP). The tooling investment is converted into accounts receivable for only the last two months of the already long project cycle. **The result is that billions of dollars in tooling that is either in process or has been delivered but has not yet been through PPAP, does not appear on the balance sheets of the OEM or the Tier 1 parts manufacturer!** With the potential for a bankruptcy filing by an OEM and/or a major Tier 1 parts supplier being a real possibility in the current economic environment, the MTDM Sector is subjected to significant financial risk which could ultimately lead to a large number of MTDM Sector business failures.

DEFINITION OF SUPPLIER

Currently, from a manufacturing perspective the OEMs only recognize vendors who supply parts and components for vehicle assemblies directly to them as suppliers. This definition includes the Tier 1 parts manufacturers who incorporate tooling produced by the MTDM Sector into their manufacturing processes. Unfortunately the current definition of supplier does not extend to the Tier 2 supply base which includes the MTDM Sector. **They are seen as indirect suppliers who produce tooling for the Tier 1 parts manufacturer, even though the OEM is the legal owner of the tooling and controls every aspect of the tool project cycle from initial launch through to delivery and final approval for production, including pricing and timing for payment.**

The manufacture of tooling is a global industry that is critical to the supply of parts for vehicle assemblies. Tooling produced by the MTDM sector is shipped not only to Canadian Tier 1 parts suppliers, but also to Tier 1 parts suppliers located in the USA, Mexico and in Europe. It is essential that the MTDM Sector is properly recognized as a key supplier in the auto industry supply chain.

TDM SECTOR IN THE USA

The CTMA is consulting with our partner association NTMA on developments with the Tooling Proposal in the USA. The Tooling Proposal has been presented and discussed with a number of U.S. Legislators (Representatives of Congress and Senators) from across the U.S. at the Federal Government level as well as the State of Michigan. The Tooling Proposal has been endorsed by five (5) organizations in the U.S. representing some 8,000 companies:

- Center for Automotive Research (CAR);
- Precision Metal forming Association (PMA);
- National Tooling & Machining Association (NTMA);
- American Association of Mold Builders (AMBA), and
- Tool Manufacturers Association (TMA).

A Resolution has received support and has been introduced into the Michigan House of Representatives instructing US Congress to enact an oversight mechanism that will ensure that the Federal stimulus assistance to the domestic automotive industry is used to pay outstanding debts to the tool, die and mold industry – to ensure that the stimulus payments flow past the manufacturers and their first suppliers to where they are owed – the tool, die and mold operations in Michigan

Congressman Thaddeus McCotter of Michigan forwarded a letter to Secretary (Treasury) Geithner requesting that representatives of the Presidential Task Force on the Auto Industry meet with representatives of the TDM Sector to gain an understanding of the issues facing the Tier 2 supply base and to work towards implementation of a viable solution.

TOOLING PROPOSAL - DISCUSSION BRIEF

SUBJECT: TOOLING PROPOSAL: ENSURE “TRICKLE DOWN” OF GOVERNMENT LOANS PROCEEDS TO DETROIT 3 OCCURS TO REACH TOOLING INDUSTRY *ENSURING THE TOOLING INDUSTRY DOES NOT COLLAPSE AND PUT AT RISK ALL NORTH AMERICAN NEW VEHICLE LAUNCHES.*

Following is a brief outline which was developed to provide you with an overview of the issues facing the Tool, Die, & Mold (TDM) industry in Canada, as well as what we believe presents a viable solution: [*Note: USA, with substantial industry and governmental support, is considering a similar proposal for US Government loans to Detroit 3.*]

THE GOALS AND BENEFITS OF IMPLEMENTING THE TOOLING PROPOSAL

1. Prevent avoidable bankruptcies in the TDM Sector;
2. Protect existing jobs and stimulate new employment - keeps people working which will contribute to an economic recovery;
3. Allows Export Development Canada (EDC) to redeploy existing insurance capacity, freed up by the Proposal due to shorter project cycles, to more Canadian exporters;
4. Enhance liquidity by improving access to credit for TDM Sector companies (*without the need for banks to amend existing bank credit facilities*);
5. Mitigate the risk of bad debts occurring, which erode company profitability, productivity and access to credit;
6. Creates a mechanism for “trickle-down” for direct loans proposed by Government to the vehicle manufacturers (OEMs) to companies throughout the supply chain with full accountability and transparency for the use of the funds;
7. Ensures that the TDM Sector is properly recognized as a critical supplier in any direct loan agreements or bankruptcy styled restructuring of a vehicle manufacturer;
8. Reduces the risk of taxpayers paying twice for the bailout: once at advancing of loan proceeds to vehicle manufacturer, and a second time when tooling proceeds from the vehicle manufacturer are diverted by the “Middleman” (the Tier 1 parts manufacturer) prior to delivery of funds to the tool source, resulting in a bad debt which forces the tool source to either:
 - i) make claims against EDC insurance, or
 - ii) lay-off employees, or
 - iii) file for bankruptcy and close operations leading to job losses.

THE ISSUES

1. Vehicle Manufacturers (OEM) driven payment terms for tooling, which result in a delay of their payment obligations, **actually increases the acquisition cost of tooling and vehicle production costs**, and has stretched payments to Tool, Die, & Mold (TDM) manufacturers by up to 24 months from award of contract and beyond. These OEM driven payment terms have resulted in:
 - a) In excess of \$3 billion in completed tooling fabricated by North American tool sources for parts manufacturers waiting for OEMs to make payments to Tier 1 parts companies, who in turn pay the tool source – **payment obligations which are not recorded in the books of the OEM**;
 - b) Payments to tool sources for completed tooling increasing 5-18 months **after delivery** of the tooling to the Tier1 parts company;

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- c) OEMs, at their sole discretion, can delay vehicle programs indefinitely without the requirement to pay for the tooling completed to date NOR pay any additional compensation for the delayed tooling eg. Interest carrying costs;
- d) Parts manufacturers who sell directly to the OEM (Tier 1 supplier) are dictating tooling payment terms such as “TDM is paid only after Tier 1 is paid”, implying that if the Tier 1 never gets paid by the OEM (e.g. bankruptcy), then the TDM has no claim to payment from the Tier 1.

NO OTHER sector in the automotive industry has to wait more than 60 days for payment after delivery of goods. Parts suppliers are paid on average 45 days after parts delivery. The OEM is paid within 5 days of vehicle delivery to the dealership. Tool sources are waiting 5-18 months or more post delivery for payment.

- 2. Banks generally: dislike lending against work-in-progress and single purpose assets; and have a 90-120 day cut-off for accepting accounts receivable as collateral for lending purposes. When these traits of the tooling sector are coupled with the present economic and liquidity environment the results are: a) the closure of a large number of TDM suppliers along with the loss of employment opportunities (30% over the past three years); b) increased stress on the financial covenants with banks for remaining TDM suppliers; c) Access to working capital financing, and the required flexibility in financial covenants, to support tooling operations is severely limited and in many cases impossible to obtain;
- 3. Many new tooling opportunities exist today, which are available for US suppliers to bid on and to win. Tooling is the leading edge indicator of the industry cycle and automotive economic recovery. However, a lack of access to working capital, COUPLED WITH a risk profile which is simply TOO HIGH with the potential for payment receipts out 24 months, will have many of these shops, who are capable of winning this work, sitting on the sidelines and thereby laying off employees.
- 4. EDC insurance alone does not provide adequate protection for the TDM Sector. **ALL RECENT ANNOUNCEMENTS REGARDING EDC INCREASES FOR INSURANCE CAPACITY IN AUTOMOTIVE SECTOR HAVE BEEN RELATED TO PARTS SHIPMENTS ONLY. EDC CAPACITY FOR TOOLING SHIPMENTS HAS NOT CHANGED SINCE NOVEMBER 2008.** Limitations result from limited availability of EDC insurance (EDC insurance capacity is defined and due to current long project cycles is not always available) and pricing for the product. The insurance premiums can prove to be cost-prohibitive to the TDM Sector. These limitations can result in significant exposure to financial loss for the TDM Sector in the event of the failure of an OEM or Tier 1 parts manufacturer.

THE SOLUTION

The tooling sector is not requesting any form of “bail out”. We are seeking: a reduction in OEM driven payment terms commensurate with the risk profile of the present industry, AND we wish to ensure these funds “trickle down” and make it through the cash strapped Tier 1 parts manufacturers, who act as Middlemen for tooling proceeds, to the Tool Source – the TDM Sector. As such we are requesting that:

- 1. Conditions be attached to the OEM direct loan package that the Government is currently considering to assist the automotive industry, which ensure that the Tier I & Tier II supply base receives some of the benefit;
- 2. Loan conditions would provide that the OEM (recipient of the Government financing) be required to provide PROGRESS DRAWS at predetermined project milestones where production tooling is sourced with a Canadian tool supplier who manufactures the tool in Canada [NOTE: A draft sample of the required legal wording for insertion into the Loan

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Agreements is available for review] or, at the very least pay 90% of the cost of tooling to the Tier 2 at delivery of tooling to the Tier 1, with 10% held back until PPAP has been completed;

3. While government loans are outstanding under the proposed aid package, the OEMs would be required to complete payment for tooling:
 - a) Upon shipment to the Tier 1 manufacturer's facility (*versus the current practice of payment of 100% of the cost of the tooling at Production Part Approval Process – "PPAP"- or Start of Production – "SOP"*), thereby accelerating final payment by 5-18 months;
 - b) Immediately, if OEM cancel a program; and
 - c) Immediately, if OEM delay a program longer than 90 days.

5. Ensuring that the OEM releases tooling funds at an appropriate interval will not fully remedy the risk to the tool source, as these funds must then navigate through the cash strapped Tier 1 parts companies. [*eg. Collins & Aikman, Progressive Moulded Products, Cadence and Plastech are high profile Tier 1 bankruptcy examples where the tooling funds the OEMs disbursed to the Tier 1 did not make it through to the tool sources.*] As such, an oversight mechanism/structure must accompany the above in order to safeguard a) government loan funds, b) OEMs as the borrowers of these funds, and c) the tool sources as the ultimate recipient of these funds. [*Tooling & Equipment Capital Solutions Inc. has structured a Bankruptcy Remote Trust mechanism for the US*]

THE BENEFITS TO THE INDUSTRY

1. The contract cycle for the large number of Canadian based tool, die and mold manufacturers will be shortened by 25-50%, immediately improving the liquidity, improving their financial ratios – which are presently under stress, and alleviating significant bank pressure which improves access to credit [*Note: Before and After Balance Sheet example is available for review to illustrate the dramatic improvement in financial position resulting from shortening the project cycle*];
2. Tool, Die, & Mold manufacturers will have access to much needed cash flow to support in-progress and future tooling projects, since they will receive payments for tooling projects in a far more timely manner– a practice that will substantially reduce contract cycle time;
3. Because of the immediate improvement in financial condition brought on by accelerating payments, and the far greater certainty of timely payments arising from the proposed Trust structure, banks will develop an increased appetite for providing financing to tooling producers because of enhanced liquidity and more certain cash flow;
6. The Tier 1 parts manufacturers will also benefit from this proposal, since they too would receive cash flow related to project capital in addition to tooling, such as assembly equipment and production fixtures, and the proposal reduces their down stream risk to supplier collapse at the Tier II level;
7. The government greatly reduces the likelihood of having to pay twice for this economic situation: The first time on the OEM bail out. The second time when the TDM sector files insurance claims for losses with EDC; and
8. EDC is able to redeploy existing insurance capacity faster, which ultimately provides access to assistance for more companies and a greater number of projects.

Furthermore, under the proposed structure the Government loans to the OEMs would have accountability - direct, traceable, attribution to several hundred Tool, Die & Mold manufacturers, located in Canada, most

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of which are small and medium sized, family owned entities employing thousands of Canadians, and not just simply one or more of the OEMs.

The Tooling Proposal offers a fair, common sense solution to the issues facing the TDM Sector today. The proposal provides a simple, cost effective structure (Bankruptcy Remote Trust) that can be implemented in a short period of time and does not require a new bureaucracy to operate. The model has already been used in the automotive industry and has proven successful when the Detroit 3 have had to bail out troubled Tier 1 suppliers in the past, while ensuring that their investment in tooling, critical to the production of parts, is protected.