US Tooling Proposal Talking Points

The Tooling Proposal preserves jobs; increases liquidity in the tool, die and mold industry; ensures avoidable bankruptcies do not happen; and reduces the risk that the taxpayers pay more than once for the automotive bail-out - all without one additional dollar of bailout funds required.

Tooling Proposal: "asks"

1. Tool, Die and Mold makers (TDMs) – whom provide tooling which becomes the exclusive title of the Vehicle Manufacturer (OEM) - are to be paid in a commercially reasonable manner and not 5-18 months after delivery:
    - At a minimum 90% payment within 45 days of delivery of goods;
    - 10% will be held back, as per construction industry standards, until the OEM confirms the tools meet OEM Production Parts Approval Process [PPAP] standards.

2. The OEMs are to take all due care and caution to ensure the Tooling Proceeds make their way through the Tier 1 parts company, WITHOUT THE PROCEEEDS BEING DIVERTED OR HIJACKED, to the tool source, the true equitable owner of the goods.
    - The Proposal does suggest a "Trust Account" mechanism to achieve this.

How do you intend to implement the Tooling Proposal?

- Very easily and simply.
- Insert into the Government OEM Loan Agreement:
    - A "Tooling Reserve" where funds will be set aside in the OEM viability plan to pay for in-progress tooling;
    - Commercially Reasonable Payment Terms: A term and condition of the loan will be that OEMs pay ALL suppliers [direct parts and indirect tooling suppliers both supplying goods –parts and tools - which are to become exclusive property of the OEM] in a commercially reasonable fashion. State the required terms and have the OEM report when they are violating those terms;
    - Safeguarding Payment Terms: Define the relationship between the OEM, Parts Supplier, and Tool Source as it pertains to the Ultimate Buyer, Middleman, and Equitable Owner of the tools, respectively. Make it a term of the loan that the Ultimate Buyer must take all due care and caution from disbursing tooling proceeds to a financially challenged Middleman, and when a Middleman diverts funds from the Equitable Owner then the Ultimate Buyer will pay the Equitable Owner directly and take "set-off" against the Middleman for the diverted payment [whom the Ultimate Buyer would owe sufficient funds for parts shipments for set-off].

It should be noted that the Tooling Proposal PREVENTS AVOIDABLE BANKRUPTCIES by ensuring payment arrives for goods already delivered by TDMs. Without the Tooling Proposal these AVOIDABLE BANKRUPTCIES will become the second taxpayer bailout, as these jobs will be lost.

Is there precedent for Tooling Proposal?

- Yes! And GM, Chrysler and Ford (D3) provide it.
- When the D3 bailed out Plastech (a Tier 1 parts supplier) by providing Plastech with operating loans, in their "Accommodation Agreement" the D3 created a Tooling Reserve and escrow/trust mechanism to pay for all in progress tooling – virtually identical to the requests of the Tooling Proposal;

Should the government not look to protect taxpayer funds in the same way the OEM looks to protect their funds when they bailout a supplier?

- Also, as the government is taking a security interest in all after acquired property of the OEM borrower they are getting a security in the tools when the OEM pays the Tier 1, DESPITE the fact that the Equitable Owner of the tooling has not been paid.

If the government is to gain benefit by receiving a security interest in tooling surely the government should ensure the manufacturer of the tooling was paid in full.

Fairness:

Why are TDMs different and worthy of consideration?

- Vehicle manufacturers are paid within days of delivery of a vehicle to a dealership
- Parts makers are paid within 45 days of parts delivery and are trying to get government support to move to 10 days;
- TDMs are paid 5-18 months or more after delivery of our goods;
- We would gladly accept payment 45-days from delivery.

OEM present tooling procurement strategy is UNDEFENDABLE:

- It increases costs while having the smallest enterprise in the supply chain finance the largest;
- OEM's have control of the tool once it leaves the Toolers floor AND THEY HAVE PROPERTY OF GM, CHRYSLER OR FORD painted on it by the Tool Source before it is even shipped to the Tier 1

- It is their assets and is manufactured EXCLUSIVELY for their purchase and therefore security for gov't loans - TDMs are unsecured once it is shipped and unsecured to a 3rd party who is not even the Ultimate Buyer
- They pay for tooling on terms that are far from commercially reasonable
- They are off balance sheet financing billions of dollars in North America off the backs of job creating suppliers - which they risk putting into avoidable bankruptcy by delaying payments and paying through middlemen..
- They order items that they cannot afford to pay for in their current circumstances.

Legally TDM contract is with the Tier 1, why should the OEM be involved?

- OEM "Supplier Rules" are the root of the present tooling procurement practice;
- OEM Supplier Rules provide disincentive for parts supplier to pay early for goods
    - Parts Supplier is not allowed to make a profit on tooling
    - OEM will pay the lesser of OEM Target Price or Actual Acquisition Costs of the tools;
    - If parts supplier provides a progress payment to TDM, notwithstanding it would have lowered acquisition cost, parts supplier is not allowed to add back finance charge associated with the progress payment
- OEM can UNILATERALLY delay a vehicle launch for months and not be required to pay for the tools unless they terminate or launch the vehicle;
- While the OEM does not have a contract directly with the tool source they are the ones calling all the shots.

This is not risk sharing, as OEMs claim, this is DOWNLOADING, as the TDM has nothing to gain in this so called "risk sharing" enterprise.

Working Capital and Liquidity Considerations

- It is worth noting that by implementing the Tooling Proposal TDMs will not have to rely on their banks to provide more liquidity or credit, as by shortening contract cycles by 25-50% or more existing bank credit facilities will be sufficient;
- Presently not only are banks tightening credit to this sector but raw material suppliers are demanding COD terms from TDMs;
- The delay in D3 payments, coupled with tight lending environment and raw material suppliers demanding COD, means that these TDMs cannot take on work for credit worthy OEMs like Toyota, Honda, Nissan, Mercedes, BMW, Volkswagen, Hyundai and Kia.

All other proposals for automotive that we have read for the automotive industry require some third party to come to the table to make the proposal viable – the consumer, the banks, the unions – the Tooling Proposal works without third party intervention.