Global And Domestic Hurdles May Rattle Auto Parts Sector

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Law360, New York (April 23, 2014, 7:02 PM ET) -- Auto parts maker bankruptcies have largely dwindled since the 2009 industry crisis, but experts say that growing global competition and long-standing pension obligations could lead to a shake-up in the parts manufacturing sector.

Analyst reports indicate that the auto parts sector will experience a revenue boost annually over the next few years and that there's little chance of a repeat crisis on the scale of five years ago. Still, experts say more consolidation and restructuring among auto parts makers could be coming because of international competition and some companies' difficulties bouncing back from the downturn.

In March, research firm IBISWorld reported that revenue in the industry is going to pick up in the next five years in response to increased demand from consumers and more effective cost-cutting measures implemented after the 2009 fallout. But Ted Gavin of Gavin Solmonese LLC says it's not so simple.

"The auto industry is a tricky thing, because while the Big Three might be doing just fine now — post-bankruptcy for two of them, of course — one of the ways car companies do better financially is by squeezing the supply chain," he said. "Auto industry distress travels from the top down. Auto industry largesse travels from the top to lower top, usually."

Even with an uptick in revenue, the firm said, global competition could put a damper on domestic demand.

Down the road, acquisitions of U.S. auto parts makers by Chinese companies could be a problem, as China addresses its demand for cars without the necessary production capabilities, Eric Sleeper of Barton LLP said.

"The Chinese market, they're gobbling up a lot of these parts companies. The question is: Are they just going to take advantage of the technology and move whatever companies they're gobbling up in the U.S. to China?" he said.

Meanwhile, those that are saddled with hefty pension funds are going to continue to struggle, attorneys say. Budd Co., which sold most of its assets and operations in 2006, was unable to conduct its liquidation on its own and **filed for bankruptcy last month** in an effort to take control of its overwhelming pension obligations.

"Pensions are coming home to roost," Judith Elkin of Haynes and Boone LLP said, adding that in some cases, pension obligations are outweighing current payroll.

Even though the industry overcame most of the financial struggles that followed GM's bankruptcy five years ago, Elkin says the pension system is still generally broken. No matter whether the fault lies with unions, management or workers, companies with heavy pension debt are going to keep struggling until that is fixed, she added.

"Budd filed to restructure its pension obligations — those 'old industry' pension plans accrued obligations over decades that are now so large that no company could realistically meet them even in the best of business climates," Gavin said.

The auto parts industry has kept itself largely intact in the past couple of years, but there have been a few exceptions. Last summer, Fenwick Automotive Products Ltd., known as Fenco, **entered Chapter 7** after it was unable to provide the cost savings its parent,Motorcar Parts of America Inc., desired. Battery manufacturing giant Exide Technologies Inc.**entered Chapter 11 around the same time**, blaming increased production costs and competition.

Additionally, Revstone Industries LLC's Metavation LLC joined its parent in Delaware bankruptcy court last summer to sell its assets to rival Dayco, though that filing had more to do with former Revstone Chairman George Hofmeister's alleged theft of millions from the company than typical financial problems.

Though these filings are not an indication of a fresh wave of auto parts maker bankruptcies, the industry itself is too volatile to suggest that there won't be any substantial changes in the coming years, attorneys said.

"There's a chance we're still going to see a shake-up or consolidation," Sleeper said. "But it's not going to be 2009 and 2010 again."

Delphi Automotive PLC, an auto parts company that exited bankruptcy long ago, has been in the **public eye of late** thanks to its role as the maker of the defective ignition switches that recently caused GM to recall 2.6 million vehicles and fight off a barrage of litigation accusing the automaker of hiding the problem for years. Though it's unlikely that Delphi, which used to be owned by GM, will have to lawyer up to the extent GM has, interest from Washington lawmakers could be a sign of tough times ahead.

Elkin, who represented a GM creditor that got paid early on in the bankruptcy, says the matter of "who knew what when" is going to have to come to the surface soon.

--Editing by Kat Laskowski and Katherine Rautenberg.