

3:01 a.m., Mar. 7, 2005

TRW Automotive joins ranks of auto suppliers suing vendors

By Terry Kosdrosky

Another large auto supplier has taken one of its suppliers to court to force continued shipment of parts in a move that could become common thanks to high steel and plastic resin costs.

TRW Automotive Holdings Corp.'s Kelsey Hayes Canada subsidiary has sued FAG Automotive Inc. in Oakland County Circuit Court. A hearing scheduled last week was canceled as the two companies try to resolve the issue. FAG continues to ship the parts.

FAG had threatened to stop shipping hub bearings to TRW's Kelsey Hayes plant in Ontario unless it received a price increase. TRW uses the bearings as part of a corner brake assembly for Ford Motor Co.

Livonia-based TRW (NYSE: TRW) balked at the price increase and sued to force FAG to deliver parts at the price it agreed to in the original contract. FAG Automotive is a subsidiary of FAG Kugelfischer AG, based in Schweinfurt, Germany. FAG's automotive center is based in Troy.

The refrain is becoming familiar. Delphi Corp. has sued a handful of suppliers, including Eaton Corp. recently, to force them to ship parts at original terms. The issue used to be handled quietly behind closed doors, but the margin pressure from steel prices has forced smaller suppliers to be more aggressive, said an attorney who specializes in auto supplier cases.

"I think there's going to be a spate of this kind of litigation in the future," said **Rodger Young**, a partner at Southfield-based Young & Susser P.C. "Tier-two suppliers are becoming more aggressive because they have no choice."

The problem is that steel prices have more than doubled in some cases. That means prices quoted a year or two ago don't reflect the new raw material costs.

In FAG's case, it told TRW last year it needed a 3 percent surcharge because of the high cost of steel. TRW rejected the surcharge, according to letters filed as exhibits with TRW's complaint.

In early February, FAG said it would institute a 10 percent surcharge, retroactive to June 1.

TRW told FAG it expected prices at the original terms, then filed a lawsuit after FAG set a deadline.

TRW said any shipment halt would cause unspecified millions in losses for TRW and Ford because it would shut down production lines, according to its complaint.

A TRW spokesman said every supplier is dealing with high raw material costs.

"Our position is the entire supply chain needs to deal with it as best we can," said Manley Ford, communications specialist for TRW.

Last year, FAG laid off about 25 employees at its plant in Stratford, Ontario. That was the first time FAG had to do layoffs there in 50 years.

Marc Vachon, vice president of automotive sales at FAG, didn't return calls seeking comment.

Young said tier-two suppliers are in a tough spot because it's hard to pass along cost increases. Raw materials have increased to the point where some suppliers are shipping parts at a loss.

But tier-one suppliers such as TRW can't pass along price increases to automakers, either.

The lawsuits could serve as a signal to automakers that price relief is needed, Young said.

"In some cases, it gives the tier one a chance to go to the automaker and say, 'Hey, we have a revolt in the colonies here. We need a price increase, and they need a price increase,'" Young said.