DELPHI

WRITTEN TESTIMONY OF ERIC SANDFORD, DEPUTY DIRECTOR– GLOBAL PURCHASING, DELPHI CORPORATION Before the INTERNATIONAL TRADE COMMISSION (ITC) ON THE IMPACTS OF THE STEEL SAFEGUARD PROGRAM UNDER SECTION 332 OF U.S. TRADE LAW JUNE 19, 2003

Members of the Commission, thank you for holding this hearing on this critical economic issue. I am Eric Sandford, Deputy Director – Global Purchasing for Delphi Corporation. I would like to request permission to submit a longer statement for the record. Delphi is pleased to provide testimony today on the impact of the steel tariff program on our company.

Let me begin by telling you about our company. Delphi is a world leader in mobile electronics, transportation components and systems technology. At Fortune 53, we are the largest provider of automotive technology and components in the world. Delphi has approximately 189,000 employees in over 40 countries, including 60,000 employees in twelve U.S. states, including Michigan, Ohio, Indiana, Wisconsin and New York. We produce a broad array of technologies, in both the automotive and non-automotive sectors. Delphi's automotive customers include nearly all of the world's leading manufacturers, including General Motors, Ford, DaimlerChrysler, Toyota and Volkswagen.

Delphi supports the work of the Motor and Equipment Manufacturers Association (MEMA), which represents the automotive supplier industry. Under MEMA's leadership, Delphi's Chairman, CEO and President, J.T. Battenberg III, has signed two letters to President George W. Bush describing our industry's concerns about the impacts of the Steel Safeguard Program.

We also strongly supported House Concurrent Resolution 23 sponsored by Representative Joe Knollenberg, who represents Delphi's World Headquarters in Troy, Michigan. As I am sure you are well aware, House Concurrent Resolution 23 requested the ITC to consider the impacts of the steel tariffs on the nation's steel consuming industries in conducting the midterm review required by President Bush's original order. The Knollenberg resolution currently has 75 bipartisan cosponsors, a strong indication of congressional concern about the impact of the tariffs on the manufacturing community and the economy as a whole. In holding this hearing, the ITC is complying with the request of the Knollenberg resolution.

The U.S. automotive industry of the 21st century is quite different from the structure that existed ten years ago. It has restructured, trimmed down and invested in innovative manufacturing techniques in order to remain competitive with non-U.S. manufacturers, who are often able to produce the same products at a fraction of the cost.

The formation of Delphi resulted from a similar restructuring. Four years ago, Delphi's former parent company and largest customer, General Motors Corporation, decided to spin-off its nearly $30 billion component operations. In doing so, GM divested itself of significant engineering and design resources, allowing it to contract for components more competitively. Delphi was free to seek new business throughout the world in both the automotive and non-automotive sectors. Today, Delphi supplies OEM customers all over the world.

The automotive industry's original equipment manufacturers demand high quality products at competitive prices and "just-in-time" (JIT) delivery. The "just-in-time" system is one of the innovative manufacturing techniques implemented by OEMs to remain globally competitive. Any disruption of this system jeopardizes Delphi's relationship with our customers and our suppliers, many of which are already challenged by the struggling economy.

As the largest U.S. manufacturer of automotive technology and components, Delphi also demands JIT delivery from our suppliers, for both raw materials and finished components. Today's U.S. automotive supplier industry is dependent on reliable and competitive materials for its survival. For this reason, we are particularly susceptible to disruptions and price increases. Over the past decade, Delphi's OEM customers have consistently demanded price reductions. The necessity of lowering prices to keep customers, coupled with the increased cost of steel has left little room for Delphi and our supplier base to maneuver.

Being one of the world's largest and most comprehensive suppliers of automotive components means that steel is an integral and vital resource to Delphi. We currently purchase $1 billion in steel every year, with $200 million representing direct purchases from steel mills and $800 million in steel related components purchased from other automotive suppliers, also known as our Tier 2 suppliers.

With the requirements imposed on us by our customers for a just-in-time delivery system, Delphi has historically purchased over 97% of our steel from domestic suppliers, who are also required to comply with JIT requirements. For this reason, Delphi has an enormous interest in the survival and economic viability of the U.S. steel industry, and it is not in our interest to see it fail; nor is it in our interest to see the tariff program cause automotive suppliers to struggle as a result of price increases and supply shortages. For instance, it is important for the commission to note that since the imposition of the steel tariffs last year, Delphi's direct purchases have experienced the following increases in the price of steel, material shortages, and longer lead times:

- A 48 percent increase in the price of hot rolled sheet steel;
- A 42 percent increase in the price of cold rolled sheet steel;
- Under capacity of hot rolled steel: short, 25,000 tons (June 2002 – Nov. 2002);
- Extension in lead time: hot rolled sheet and hot rolled bar, lead time before tariffs was 35 days and has currently increased to 45 days.

Due to instances of material shortages, delayed deliveries and extended lead times resulting from the tariffs, Delphi has been forced to increase the amount of steel we purchase in the spot market in order to ensure delivery of the necessary quantities of steel required to meet our customers' needs and also to guarantee the stability and reliability of the just-in-time system. This has proved to be troublesome in that spot market purchase prices have increased relative to contract prices. During a six-month span last year, Delphi was forced to spend an additional $750,000 on direct steel spot procurements.

Delphi's $800 million in annual indirect steel purchases are made through our finished component suppliers and it is here that the most significant impact to Delphi has been experienced. Many of these companies are smaller operations that have experienced price increases in steel in the range of 5% to 30%. Just as Delphi is unable to pass on any price increases to our own customers, Tier 2 or Tier 3 suppliers cannot pass on the price increases demanded by steel manufacturers to Delphi or their other customers. Like Delphi, these suppliers are faced with the position of having to "eat the cost" of these price increases and this is resulting in material shortages. At Delphi, the result has been a difficulty in obtaining the steel quantities necessary to meet our business needs.

Shortages in supply have resulted in delayed deliveries and longer lead times from our suppliers, which pose a serious threat to the "just-in-time" delivery system that our industry is so dependent on and that our customers demand. These shortages have resulted in specific instances of shutdowns and curtailed production. For example, production lines at Delphi's Energy and Chassis Systems Needmore Road facility in Dayton, Ohio, which produces brake system parts, and at our Dayton, Kettering facility, which produces shock and strut assemblies, shutdown several times last July and August due to carbon sheet steel material shortages. This caused these plants to incur additional expenditures in production overtime, premium freight and required expedited shipping to our customers in order to meet just-in-time requirements. It was only through taking these extraordinary measures that Delphi avoided causing shutdowns at our customers' assembly lines.

Finally, in today's automotive supplier industry, customer requirements demand that decisions regarding sourcing be made well in advance of actual production. Every day, automotive suppliers are making decisions that will impact job sourcing and production for the next decades to come. Because of the steel tariffs, certain parts that are typically made with U.S. steel can now be manufactured and purchased offshore more competitively.

For example, take a simple rate cup washer, a shock absorbent component that represents about $1 million of Delphi's annual steel purchases. Delphi can save between 20 and 30 percent by purchasing the same part outside the U.S. When a product such as the rate cup washer is unable to compete for U.S. production, it often makes sense not only to purchase raw materials offshore, but also to move production at the same time. The consequence is that raw material cost increases can drive production offshore, and if Delphi or another supplier is forced to move production outside the United States, it is unlikely that those jobs will ever come back.

Also, today's strong dollar versus foreign currencies presents a situation where it is cheaper to manufacture products abroad and import finished parts into the U.S. Federal Reserve Chairman, Alan Greenspan, recently echoed this concern when he testified in front of the Joint Economic Committee of Congress on May 21. Mr. Greenspan told the Committee that he felt the steel tariffs should be abolished "quickly" because the sanctions are inducing American steel consumers to move production overseas. The supply shortages and price increases as a result of the steel tariffs are forcing Delphi and other suppliers to make such decisions every day.

As you can see, there is no question that the negative impacts from the steel tariffs are hurting Delphi and our suppliers. When coupled with other economic uncertainties today, problems stemming from the tariffs only become worse. For example, the U.S. automobile industry is currently on the down-slope. In a *New York Times* article published on March 16, the author, Fara Warner, stated that, "in early March, two of the world's biggest automakers, Ford Motor and General Motors, announced that they would be cutting production in the second quarter as they prepared for a downturn in sales (2003)." In the past week, DaimlerChrysler announced that its Chrysler unit stands to lose more than $1.15 billion in the current quarter. Continued losses in sales for American automakers inevitably will harm suppliers like Delphi, who are highly dependent upon the success of U.S. OEMs.

Like the steel industry, we are hampered by high labor, health care and pension costs, customer demands for price <u>cuts</u>, and an American consumer that demands increasingly high-quality products. Delphi stands ready to meet all of these demands. However, meeting these demands has required that Delphi make business decisions to remain competitive. With the increases in the price of steel – an intrinsic component in the content of a motor vehicle – the cycle only grows more vicious. The business decisions Delphi makes today will impact the economy for the next ten years or more.

In closing, I want to thank the commission for holding this hearing and for giving the steel consuming public the opportunity to state our case. I urge you to take the impacts of our community into careful consideration in your report to the President regarding continuation of the tariffs.

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