



# Warner Legal Corner

**AUTOMOTIVE LEGAL TOPICS**

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## New Sourcing Relationships Spur Suppliers to Revisit Supply Terms

Many of Warner's automotive supply clients are diversifying where they source product. Some are doing so in response to the sanctions levied against China and Russia, while others are creating supply redundancies to limit further disruptions in a volatile global market.

This trend has resulted in many clients entering into new sourcing relationships and re-evaluating how their supply contracts allocate risk. If you are contracting with a new source, below are some key considerations to keep in mind.

- **Make sure the new source and its suppliers have the same product supply obligations as you do.** If you are required to supply your customers' "requirements," obligate your source and its suppliers to do the same. That includes your source and its suppliers – under any force majeure, contract termination or other provision – having the same obligations to supply product as you owe to your customer. Supply terms can also incentivize good performance.
- **Use your contract terms to add supply redundancies and transparency.** Your terms can specify diversely located and pre-approved alternative sources to cover for supply disruptions and provide for facility and document audits of your source and its suppliers to increase transparency and accountability within your supply chains.
- **Make sure any product warranty, indemnity and related provisions properly allocate risk.** That includes allocating who is responsible for design, for recall/field service campaign expenses and for compliance with applicable laws and any third-party IP. The warranty should extend over your customer's product life; and your terms can require your source to indemnify you and to carry sufficient insurance (including recall coverage), for all such risks.
- **Consider using a shorter initial term** for your supply agreement to give you flexibility to pivot, if necessary.

For more information from Warner's Automotive Industry Group, visit their [webpage](#) or log onto [www.wnj.com](http://www.wnj.com).

## ATTORNEY SPOTLIGHT Lance Zoerhof



Lance Zoerhof is a litigator with over 20 years' experience counseling auto suppliers on supply chain disputes and risk avoidance.

"The auto supply chain work has an added layer of complexity to it – unique to automotive," he explains, "which I enjoy." This experience is what Lance leans on to advise suppliers in the furniture, agricultural, home appliance, power tool and product fulfillment industries, among others – and helps them navigate similar issues, in addition to resolving disputes at trial or arbitration.

Lance works with clients at all levels of the supply chain, ranging from Tier 1 suppliers to tooling manufacturers, as well as aftermarket parts suppliers. And, his supply chain matters are regularly international in scope. "Often a client's product will be sourced out of China, Taiwan, Mexico, Canada or some other international location, or some of the components of a product may come from outside the U.S.," he explains. "This creates additional logistical and regulatory hoops to jump through as well as different procedural rules coming into play to resolve disputes within the supply chain."

He goes on to explain that, "Right now, those sourcing overseas are also experiencing runaway demurrage, detention and other costs associated with delays. That has resulted in a dramatic increase in suppliers asking if these costs should be allocated within their supply chains." Lance helps his suppliers proactively mitigate risks associated with these costs and represents suppliers in these types of disputes.

Additionally, determining where the product originates, in respect to tariffs, is another hot issue. Moving manufacturing processes from one country to another may be an appropriate response to increased tariffs. Those moves have resulted in suppliers entering into new relationships. And new relationships birth new risks that need to be properly assessed and allocated within the supply chain – Lance's area of expertise.

Lance is recognized among *Michigan Super Lawyers* for Business Litigation. Check out Lance's [full bio](#) here.



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