

Auto Makers Consider Shifting More Manufacturing to North America

U.S. trade pact is prompting foreign auto makers to rethink supply chains to meet potential restrictions



A Volkswagen car plant in Puebla, Mexico. Foreign car makers are looking at moving more manufacturing to North America following the recent U.S. trade deal. Photo: pedro pardo/Agence France-Presse/Getty Images

By
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Foreign car makers are considering moving more of their manufacturing to North America following the [recent U.S. trade deal](#) with Canada and Mexico.

Within days of the U.S. and Canada reaching a pact to replace the roughly 25-year-old North American Free Trade Agreement, executives at several foreign car makers said they are considering changes to their supply chains that would result in more auto-parts manufacturing in the U.S., Canada and Mexico.

“We will allocate more U.S. production for the U.S. market,” [BMW](#) AG CEO Harald Krüger told reporters at the Paris Motor Show this week. He said the German car maker already sources many parts in the region, but the new trade pact will accelerate a shift in investment.

Nafta 2.0: What Is It, What's Different



The U.S. and Canada reached a last-minute deal late on Sept. 30 to revise the North American Free Trade Agreement. We look at what it is and what's changed. Photo: Getty Images.

Daimler AG CEO Dieter Zetsche said at the same event the new agreement could force the company to move more engine manufacturing to the U.S., where it builds cars and sport-utility vehicles at a factory in Tuscaloosa, Ala.

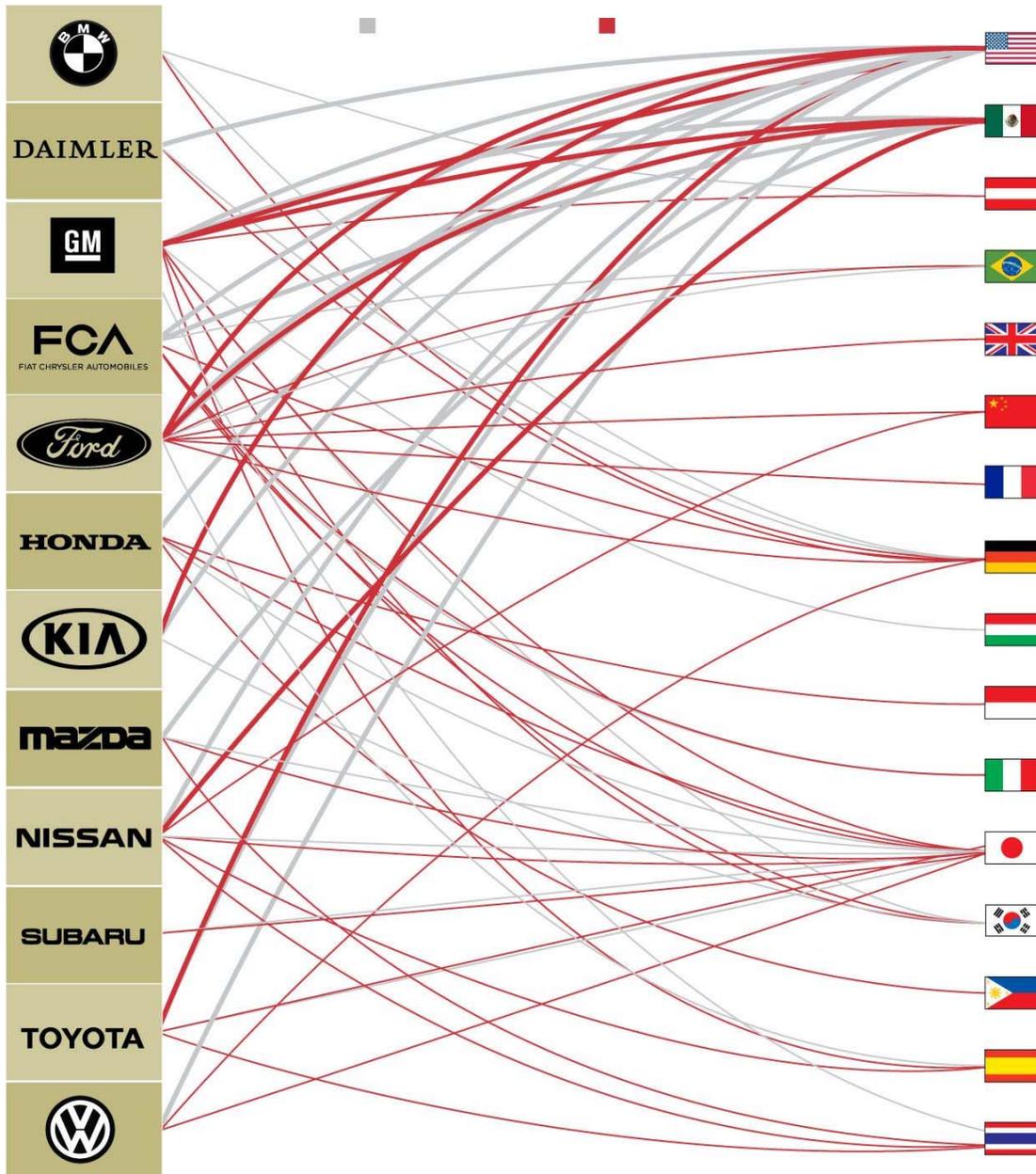
The impact on foreign auto makers' North American operations from the newly named United States-Mexico-Canada Agreement, which still has to be approved by Congress, remains unclear. But many in the auto industry see the pact as evidence of President Trump's tough approach to trade, at a time when he is [threatening new tariffs](#) on European and Japanese auto imports.

Industry consultants say auto makers are growing increasingly nervous that more restrictions could emerge as Mr. Trump turns to trade talks with Japan and the European Union.

“These companies are now seeing that there is an element of political risk to operating in the U.S.,” said Johan Gott, a principal with global management consulting firm A.T. Kearney.

Under the Hood

Some vehicles assembled in North America use engines or transmissions from outside the region



Since Nafta was established in 1994, both U.S. and foreign auto makers have developed supply chains based on the expectation of low to no tariffs within North America. Mr. Trump made overhauling Nafta a campaign pledge, arguing that it eroded the U.S. manufacturing base and sent well-paying factory jobs to Mexico, where labor is cheaper.

The tentative deal, which replaces Nafta, requires auto makers to build at least 75% of a car's value in North America to remain duty-free within the region, up from 62.5% currently. Car

companies also have to ensure 40% to 45% of the vehicle is made by workers earning at least \$16 an hour, a provision aimed at steering more work to the U.S. to generate manufacturing jobs.

The pact caps yearly auto imports from Canada and Mexico at a combined 5.2 million, well above the 4.1 million vehicles that were shipped into the U.S. last year from the two countries. Cars that don't comply with the new rules will be subject to a 2.5% tariff. The deal exempts light trucks such as pickups from the caps.

Foreign-based car brands made up 56% of light-vehicle sales in the U.S. last year, according to Autodata Corp. Auto makers that source a significant number of parts overseas, including high-value engines and transmissions, will likely be at risk of noncompliance with the new rules for certain vehicles that they make in North America and sell in the U.S., industry analysts say.

The new rules will be phased in over the next two to five years, about the time it takes to develop a partially or fully revised car model. Car makers are likely to look at moving engine and transmission production first, because those parts make up roughly 30% of a car's value and thus represent what would be a big step toward the stricter content thresholds, manufacturing consultants say.

The new standard is most significant for vehicles that are built in Mexico with lots of foreign parts and then shipped to the U.S., such as [Nissan Motor Co.](#)'s Sentra compact sedan, Volkswagen AG's Golf compact and [Honda Motor Co.](#)'s Fit subcompact.

Carlos Ghosn, head of the Renault-Nissan-Mitsubishi alliance, said the new North American trade pact would spur the car-making group to invest more in both the U.S. and Mexico, but didn't provide details. Honda and Volkswagen said in separate statements that they are still analyzing the potential impact of the deal on their local operations.

[Mazda Motor Corp.](#), which relies on Japan for engines and transmissions, would also struggle to meet the higher content requirements on its Mexico-built Mazda3 compact car.

"Naturally, it will change since we haven't reached 75% local content," said Mazda CEO Akira Marumoto. "Components that have to be made within the Nafta region will increase."

By comparison, Detroit auto makers [General Motors Co.](#), [Ford Motor Co.](#) and [Fiat Chrysler Automobiles NV](#) don't expect to be impacted significantly because most of the vehicles they sell in the U.S. are likely to meet the local content and wage requirements, although some cars may face hurdles. That could include Fiat Chrysler's Mexican-made Fiat 500 subcompact, which uses transmissions imported from Germany, Italy or Japan depending on the model, according to government data. FCA said it expects the trade deal to allow its North American production to "remain competitive at home and in export markets around the world."

Some industry analysts say the new restrictions could over time hurt North American competitiveness by raising manufacturing costs and also lift retail prices for U.S.-sold cars. Many car makers now use North America—and particularly Mexico and the U.S.—to supply overseas markets, but that could change with the shifting trade policies.