Magna insulated from NAFTA uncertainty

Aurora-based auto parts manufacturer already has significant plants and equipment in U.S.

December 20, 2017

By Geoff Kirbyson

Worker adjusts wheel on assembly line at Magna plant in Liberty, MO

THE future of the North American Free Trade Agreement is up in the air and could even be cancelled but that's of little concern to Magna International.

The Aurora, Ontario-based auto parts manufacturer has nearly half of its plant and equipment located in the U.S., so when American negotiators proposed recently that 50 per cent of all parts and vehicles that cross borders under NAFTA be made in the U.S., company officials shrugged.

Of the company's $19.5 billion in North American sales, about $9 billion – or 46 per cent – is already in the U.S. and the vast majority of those parts don't cross any international borders. (All figures are in U.S. dollars.)

"The parts that aren't leaving the U.S. (aren't subject to) any duty," said Jim Floros, Magna's director of investor relations. "They're not coming from Mexico or Canada into the U.S. so there is no potential tariff for U.S. sales. The $9 billion in U.S. sales is essentially all staying there so there is no risk."

U.S. President Donald Trump has been threatening for more than a year to tear up NAFTA, which is used heavily by automakers with production and supply chains in all three countries.

Magna's North American revenue also includes $6 billion from Canada and $4.5 billion from Mexico. Half of the Canadian production is ultimately shipped to the U.S. while 40 per cent of what's produced in Mexico is moved stateside. Magna is the top parts supplier to companies such as General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles.

While the negotiators on all three sides continue to try to hash out a deal, companies with operations in all three countries, including Magna, continue to operate with a "business as usual" attitude.

Don Walker, Magna's CEO, told its quarterly earnings call with analysts in November that the growing uncertainty means companies considering major investments will probably put them on hold or be "biased to invest more in the U.S." until a final resolution is reached. (Magna has not made any such adjustments, he added.)

But the automotive industry is highly integrated with just-in-time manufacturing so it's very difficult to move a facility from one city or country to another, Floros said.

"We are where we are because that's where our customers need us to be," he said. "If OEM (original equipment manufacturers) start moving facilities, we would have to look at that as well but that's not a short-term task."

Magna shares have risen from about $60 at the beginning of the year to nearly $74 by mid-December.

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