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Economic Briefing

Trump announces 25% auto tariffs

President Trump issued an executive order that the US will impose an additional 25% tariff on imports of autos and key auto parts. This is likely to cause problems not only for exporters in the EU, but also to strain the supply chains of the North American auto industry. At the same time, auto prices in the US should rise. Although specific countermeasures by the US's trading partners are not yet known, they will be discussed in the near future.

Trump increases car tariffs

Yesterday, Donald Trump announced additional tariffs on the import of cars and car parts, which means that these tariffs are in addition to existing tariffs:

- From **April 3**, an additional tariff of 25% will be levied on the import of cars and light trucks from all countries.
- For passenger vehicles and light trucks from Canada and Mexico that are imported under the North American Free Trade Agreement USMCA, the increased tariff will apply only to the non-US value added portion upon request.
- By **May 5** at the latest, an additional 25% tariff will be imposed on the import of auto parts from all countries except Mexico and Canada. A list specifying the parts affected will be published soon, but engines, transmissions and electronics have already been mentioned.
- Tariffs for auto parts from Canada and Mexico will only affect non-US value added. No date or details are known yet.

Who will be affected?

The US imports finished automobiles (here: passenger vehicles and light trucks up to 5 tons) primarily from Mexico, Japan, South Korea, Canada and Germany (Chart 1). The restriction applies to imports from Mexico and Canada that only the non-US value added portion should be affected. This is not yet taken into account in the chart. Accordingly, either Mexico (\$57 billion in exports) or Japan (\$41 billion) could be most affected. In any case, exporters in Canada and Mexico cannot count on an exemption for their domestic value added. Germany follows in fifth place (\$26 billion). Other EU countries such as Italy and Sweden (\$4 billion each) will be less affected. Since all countries in the world

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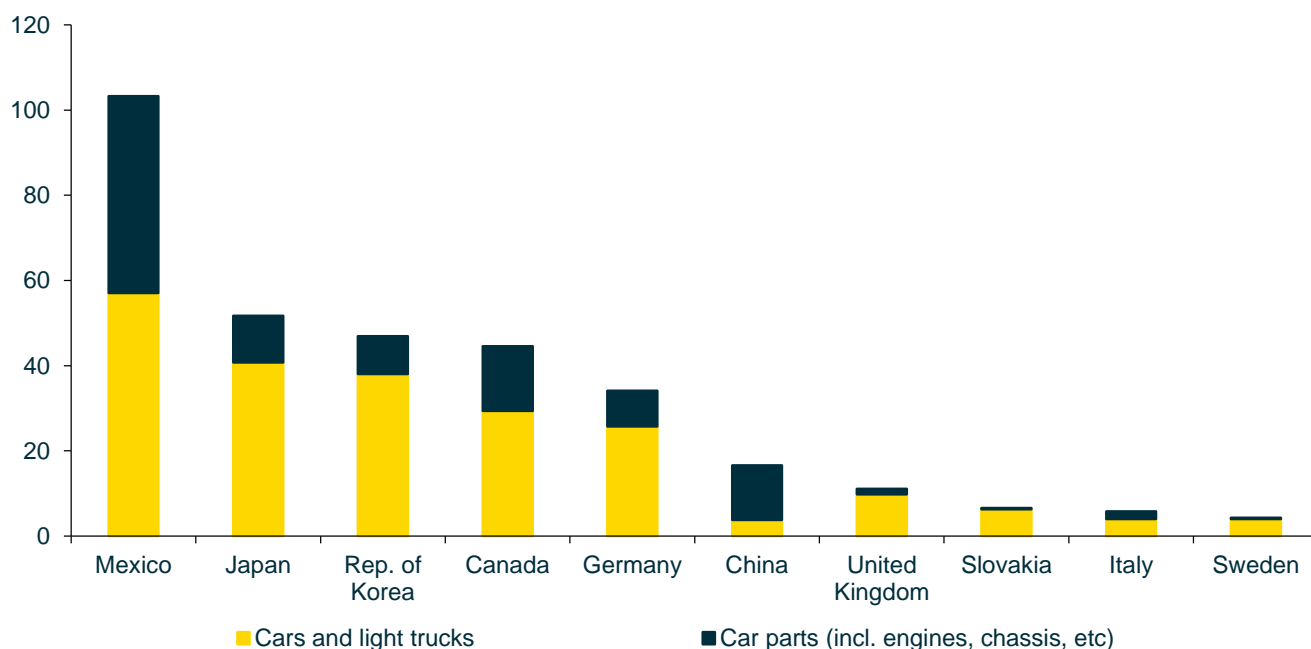


are affected, it is likely to be difficult for countries like Germany to redirect cars to third countries and sell them there.

It will hardly be possible in the future to circumvent the tariffs by importing car parts and assembling them in the US. Since a precise list of the car parts affected has not yet been provided, we are basing our analysis on the broadest possible definition. [1] Here, too, imports from Mexico (\$46 billion) play the biggest role. A tariff on these car parts is also likely to have a significant impact on the competitiveness of US carmakers. After all, Germany exports around \$8 billion worth of car parts to the US.

Chart 1 - The United States import predominantly from five countries

Imports of the United States of cars (including light trucks) and car parts (including engines, chassis and others) in billion US Dollar. Value added in the US not subtracted.



Source: UN Comtrade, Commerzbank Research

How are the trading “partners” reacting?

EU Commission President Ursula von der Leyen has responded with a **statement**. The EU “deeply regrets” the American measures and will evaluate them together with the further decisions expected from the US government in the coming days. The EU is still seeking a negotiated solution, but will safeguard its economic interests.

The EU is therefore not reacting immediately with the prepared countermeasures, apparently hoping that a compromise can still be agreed with the Americans. They do not want to complicate this by escalating the conflict with the US.

Canadian Prime Minister Carney sees the US tariff measures as a “direct attack” on Canadian workers and recognizes a clear violation of the USMCA agreement. Canada will now decide on how to proceed, including possible counter-tariffs. Carney is currently in an election campaign (the election will take place on April 28) and is therefore unlikely to be interested in showing weakness towards the US. The patriotic wave triggered by the US threat has propelled him to the top of the polls; just a few weeks ago, an election victory for his Liberal Party seemed virtually out of the question.

On April 2, the trade war escalates



The car tariffs are just one more step in the Trump administration's protectionist agenda. Trump has announced a "Liberation Day" on April 2. The US government will then announce the main features of the "reciprocal tariffs". The main aim is to end "unfair" trade relations with the most important importers. Initially, the focus will likely be on what US Treasury Secretary Bessent has called the "Dirty 15". These are likely to include the EU, China, Japan and South Korea. The plan is apparently to calculate a tariff rate for each country that not only takes into account the tariffs imposed by the trading partners on US goods, but also non-tariff barriers to trade such as import quotas. In some cases, even the value added tax, as levied in the EU, for example, is considered a kind of tariff on imports of US goods.

Donald Trump says he does not want to fully retaliate for the unfair practices of trading partners. He is also considering a number of exceptions. Much will therefore depend on the exact design of these reciprocal tariffs. Ultimately, the protectionist defenses will become even higher and the risk of a tariff war will increase. This is because the US's trading partners will not accept all US measures without resistance. Should the US respond to the expected countermeasures with even more far-reaching tariffs, the global economic environment will deteriorate significantly.

The same is to be feared, as Donald Trump has threatened on Truth Social: *"If the European Union works with Canada in order to do economic harm to the USA, large scale Tariffs, far larger than currently planned, will be placed on them both in order to protect the best friend that each of those two countries has ever had!"*

The last example of a tariff spiral getting out of control was in the 1930s, which contributed to a deepening of the global economic crisis.

The best case would be for the main tariff measures to be on the table from April 2, so that companies and trading partners know what to expect. If we then manage to stop the escalation spiral described, we might be able to avoid a severe blow to the world economy. In the long term, parts of world trade could reorganize themselves without the United States. Whether that would be in the US interest is another matter.

[1] We include the Harmonized System Code (HS) 8708, the category "automobile parts" and engines for passenger cars (HS code 8403), transmissions for passenger cars (8483), chassis and bodies (8706 and 8707) and various electronics for passenger cars. ([back to text](#))



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