# The evolving tariff threat: The impact on the automotive industry

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February has brought about a dynamic and evolving situation surrounding the threat of tariffs impacting several key sectors, including the automotive industry. From the 30 day "pause" of 25 percent tariffs on Canada and Mexico to the recent imposition of 25 percent tariff on steel and aluminum, with a "no exemptions" and "no exceptions " approach,[1] as well as the most recent threat of 50-100 percent tariff on the Canadian automotive industry,[2] businesses and impacted sectors are undoubtedly on edge.

When it comes to automobiles, U.S. consumers have never had it so good. On the one hand, the close integration of the auto manufacturing sector in Canada, Mexico, and the United States has led to enormous advances in efficiency and competitiveness, resulting in better cars and trucks at lower prices for the American consumer. On the other hand, the rules put in place by the Canada-U.S.-Mexico Agreement (CUSMA) ensured that these benefits for the consumers and manufacturers did not come at the cost of high-paying, highly-skilled manufacturing jobs in North America. However, since February 1, 2025, this delicate balance in the multi-billion-dollar industry is at risk of significant disruption.

North America's automotive industry is deeply integrated, with production processes spanning the U.S., Canada, and Mexico. Over the years, trade agreements like CUSMA have deepened the integration of the automotive sector by facilitating the cross-border movement of parts and materials. CUSMA introduced stricter rules of origin compared to its predecessor, NAFTA. The rules of origin provisions in a free trade agreement determine which goods traded between member countries are eligible for preferential treatment such as reduced tariffs or duty-free trade. CUSMA mandates that at least 70 percent of a motor vehicle's steel and aluminum must come from North America to benefit from preferential treatment under the agreement. Additionally, CUSMA requires a regional value content of 60-75 percent for motor vehicles, which is higher than NAFTA's threshold of 60-62.5 percent[3] and the 50 percent threshold in the EU-Mexico Global Agreement.[4]

This trade agreement has been vital in shaping the automotive industry by facilitating easier movement of materials and parts across borders, which has made the automotive sector in the region one of the most competitive in the world.

In 2023, Canada and Mexico collectively exported over $210 billion worth of automotive products, including automotive parts, new passenger vehicles and light trucks, and medium and heavy-duty trucks to the U.S., with Mexico being a critical supplier of auto parts.[5] Any disruption in the flow of these goods could have wide-reaching effects throughout the entire automotive supply chain.

Given the uncertainty surrounding the potential tariffs, there are several key considerations that automakers and suppliers in the automotive sector will want to consider carefully:

1. **Review supply chain contracts**: Automotive suppliers should review their contracts to check for clauses related to tariffs, force majeure and dispute resolution processes. Clarity of the liability framework will help mitigate the risk of potential increased costs or delays in the evolving tariff landscape.
2. **Audit sourcing to ensure compliance:** Given the stricter CUSMA rules of origin, it is crucial for automakers and suppliers to ensure their sourcing practices comply with the trade agreement. Automakers sourcing significant amounts of steel and aluminum from outside North America may risk noncompliance with CUSMA and lose access to its tariff preferential treatment.
3. **Develop contingency plans**: Original Equipment Manufacturers (OEMs) and suppliers will wish to develop contingency plans to address potential supply chain disruptions. This could involve sourcing materials from alternative markets or exploring new partnerships.
4. **Engage in automotive industry resiliency planning**: Automotive industry stakeholders may find benefit in meaningful collaboration in the industry to identify concrete solutions focused on a mutual interests in enhancing the resiliency of the sector, particularly during these turbulent times.
5. **Leverage trade exemptions and exclusions:** Automotive manufacturers in Canada should closely examine the side letter to CUSMA dated November 30, 2018,[6] which outlines specific exclusions from U.S. national security measures that could impact the Canadian auto industry. Canadian automakers may want to understand the eligibility criteria and conditions under which they can benefit from these exclusions.

## Opportunities for collaboration

As the trade landscape continues to evolve, there is an opportunity for stakeholders in the automotive industry to engage meaningfully to respond to the current developing tariff threat. Automakers, suppliers, policymakers, and trade organizations should work together to address the potential challenges posed by the tariff threat. By aligning their efforts, these stakeholders can foster solutions to mitigate the impact on the automotive industry and North America's broader economy.

## Footnotes

[1] See "Trump imposes 25% tariffs on steel and aluminum | CNN Politics".

[2] See, "Trump threatens Canadian cars with tariffs up to 100%".

[3] CUSMA Rules of Origin Regulations SOR/2020-155, Part 6; The U.S. Customs and Border Protection's USMCA Implementing Instructions (CBP Publication No. 1118-0620, Published Jun. 30, 2020) and Implementing Instructions Addendum (CBP Publication No. 1358-0121, published Jan. 12, 2021).

[4] See "EU-Mexico's New Trade Deal"

[5] See CRS, "USMCA: Automotive Rules of Origin" (Dec. 6, 2024), citing from the U.S. International Trade Administration.

[6] See "Letter from the U.S./Letter from Canada (Section 232 Tariffs - Autos and Auto Parts)"

**Par**

Rambod Behboodi, Hessam Mehrabi

**Services**

Transports, Automobile

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## Bureaux BLG

**Calgary**

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

**Ottawa**

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

**Vancouver**

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

**Montréal**

1000, rue De La Gauchetière Ouest
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

**Toronto**

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749