U.S. releases new tariff changes for the automotive industry

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On April 29, 2025, The U.S. President signed a Proclamation and an Executive Order providing some relief from the 25 per cent tariffs on imported auto parts and automobiles, effective retroactively from April 3, 2025.

These measures offer some temporary tariff relief in the form of an "import adjustment offset" for parts used in vehicles assembled in the United States. The new adjustments follow Canada's recent measures to aid Canadian automakers affected by the ongoing tariff dispute with the United States.

Stakeholders in the automotive sector should stay informed about these developments impacting their manufacturing, operations, procurement strategies and cost forecasts.

Background

On March 26, 2025, the Untied States announced 25 per cent tariffs on imported automobiles and auto parts, primarily under section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862) (Section 232 Tariff). The tariff took effect for automobiles on April 3, 2025, and is scheduled to apply to auto parts beginning May 3, 2025.

These measures have raised concerns among automakers and auto parts manufacturers about rising production costs and supply chain disruptions. On April 29, 2025, through a Proclamation and Executive Order the President retroactively modified the tariffs and provided some further information on their implementation.

Key changes to tariffs for auto manufacturers based in the United States

Under the new Proclamation, manufacturers that assemble vehicles in the United States may apply for an "import adjustment offset," which will reduce the Section 232 Tariffs on certain imported auto parts. This relief will apply over a two-year period as follows:

- For vehicles assembled between April 3, 2025, and April 30, 2026, manufacturers can receive an offset equal to 3.75 per cent of the total Manufacturer's Suggested Retail Price (MSRP) of all U.S.-assembled vehicles.
- For vehicles assembled between May 1, 2026, and April 30, 2027, the offset will be 2.5 per cent of total MSRP.

These percentages correspond to the tariff that would be owed if a 25 per cent duty were applied to parts making up 15 per cent and 10 per cent, respectively, of the value of a U.S.-assembled automobile in the first and second year. This means that in the first year, vehicles with at least 85 per cent domestic (U.S. or CUSMA) content will not face any tariffs. However, according to the most recent data, few American-built cars currently meet this threshold. In many instances, between 0 per cent to 50 per cent of the cars manufactured in the U.S. include domestic content.

The "Batavista" is an SUV assembled in Tennessee. A full supply-chain audit reveals that the "Bat-As", as the car is known affectionately by its die-hard *fans, has only 30 per cent U.S. or CUSMA content; the rest is imported from San Marino and Liechtenstein.*

Under the Auto Tariff rules, the 70 per cent non-US/CUSMA parts imported for use in assembling the Bat-As in the United States would be subject to a 25 per cent tariff. The offset would mean that the manufacturer would pay tariffs only on 55 per cent for the first year and on 60 per cent for the second year.

Only vehicles that undergo *final* assembly in the United States are eligible; the offset can be used solely to reduce tariff obligations under Proclamation 10908. If the approved offset exceeds a manufacturer's total tariff liability, the excess cannot be applied to other duties.

Manufacturers may also designate specific importers of record, such as suppliers within their U.S. production chain, to use portions of their offset. However, only those authorized by the manufacturer may benefit, and the offset must be tied directly to eligible vehicle production.

The new Executive Order provides further direction as to the application of several recently announced tariff measures to prevent multiple overlapping tariffs from over-penalizing the same goods. Under this Executive Order, if an automobile or an auto part is subject to the 25 per cent tariff set out in Proclamation 10908 of March 26, 2025, as adjusted on April 29, 2025, it will not be subject to certain additional tariffs such as the suspended 25 per cent tariff on all goods imported from Canada and Mexico or the additional tariffs on steel and aluminum. This means, for instance, that U.S. vehicle manufacturers may now end up paying the Section 232 Tariffs, as adjusted, on the vehicle or its parts (since May 3, 2025) and not additional tariffs on the steel and aluminum used in them.

Application process and oversight

Within 30 days of the order, the Secretary of Commerce will establish a process for manufacturers to apply. Applicants must provide:

- Projected U.S. assembly volumes and plant locations.
- Expected tariff costs, including those passed on by suppliers.
- The total offset amount requested.
- A list of eligible importers and their assigned offset amounts.
- A sworn certification from a senior company officer confirming the accuracy of the submission.

Once verified, the offset will be approved and implemented by U.S. Customs and Border Protection (CBP), which will apply the credit against current tariff obligations. CBP may use its existing systems and procedures to administer the program and may penalize any importer who claims more relief than authorized.

The Secretary of Commerce will continue to monitor imports of automobiles and parts and advise the President if national security conditions change. This may include recommending updates to tariff rates or the suspension of the offset program.

Potential effects of the new adjustment

While the new adjustment offers some relief to auto and automotive parts manufacturers, its impact is, however, likely to be modest. The tariff credits (3.75 per cent and 2.5 per cent of MSRP over two years) help reduce the burden, but they do not fully account for the costs manufacturers face due to the 25 per cent tariff on certain parts under Proclamation 10908.

In practice, the financial strain of such tariffs extends well beyond the stated rate. Compliance with import regulations introduces a range of indirect costs, including legal and administrative expenses, internal compliance systems, and external advisory fees. Companies often manage significant audit risks, potentially spanning multiple years, and may require costly advance rulings or face prolonged litigation when disputes arise with border authorities.

These compliance-related burdens add a layer of complexity and unpredictability that is not reflected in the headline tariff rate. As a result, a nominal 5 per cent or 10 per cent duty on imported parts can lead to effective cost increases far exceeding those percentages, especially once regulatory overhead is factored in. This means that even with the relief provided, the true impact on manufacturers, and ultimately on vehicle prices for consumers, may remain substantial, potentially surpassing the 3.75 per cent credit limit outlined in the adjustment.

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