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TRANSPORT & LOGISTICS TRADE

Importing European cars into the US? Prepare for a price shock

The tariff sledgehammer has struck trade once again. As of 3 April, US imports of cars and, no later than 3 May, foreign car parts are subject to a 25% tariff to protect the American automobile industry and national security, according to President Trump. But car makers, including American producers, aren't happy as it hits them hard

Half of the sold cars in the US are imports

The US has a significant trade deficit in cars and car parts, importing $474 billion worth of automotive products in 2024, with $220 billion of the total amount attributed to passenger cars. Imports cover roughly one of every two sold cars in the country, while some 50% to 60% of car parts used for vehicles assembled in the US come from abroad. Most of these imports, especially from the big three car makers GM, Ford, and Stellantis, come from Canada and Mexico, which are integral parts of the North American supply chain.

In addition to Japan and South Korea, Europe is a major exporter of cars to the US. Car makers like Volkswagen are particularly affected, as car parts will be included in the tariffs. Furthermore, Mexico, where many manufacturers have invested in the US market, is also subject to steeper tariffs.

Imported cars from Europe will see unprecedented price hikes in the US due to the levies

As the 25% tariff will be added to any existing duties or tariffs already applicable to imported automobiles and certain automobile parts, this means that the tariff rate for cars imported from Europe, for example, rises to

- 27.5% for cars (the current tariff stands at 2.5%)
- 50% for light trucks (the current tariff stands at 25%)

Add to that the existing 25% tariff on steel and aluminium for certain car parts, and potential new tariffs from 2 April, and importers could face a substantial premium for importing cars, light trucks, or car parts, especially if all these tariffs stack up.

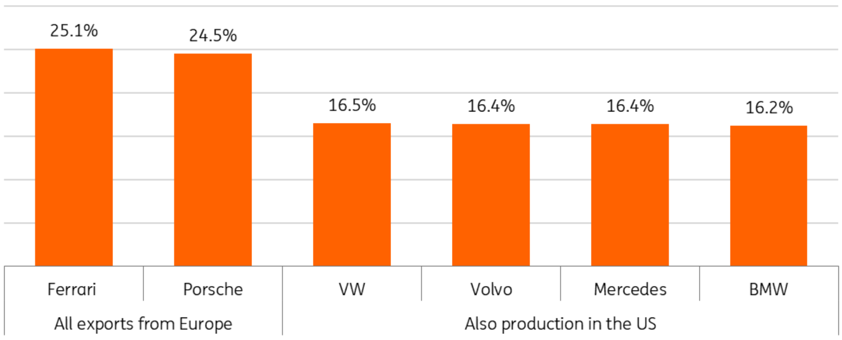
US market important for European car makers

While the EU exported finished passenger cars and light trucks (under 5 tonnes), worth 39 billion euros or some 750,000 units to the US in 2024, car parts (including parts and accessories, transmissions, compressors, and electrical components) amounted to 13.9 billion euros, resulting in 10% of exports being hit by additional tariffs.

Several European car makers – particularly German ones - have a significant presence in the US, accounting for 15-25% of their global unit volume. VW sells the most cars in the US, followed by BMW and Mercedes. All three also have production facilities in the US, covering up to 50% of their US sales. Premium brands like Porsche and Ferrari ship all of their cars sold in the US from Europe (some 76,000 and 3,450, respectively, in 2024). The US has been a growth market for European car manufacturers, and Volkswagen expected to deliver a similar number of cars in 2025. This is now being challenged, though.

European manufacturers sell significant shares of their cars in the United States

Unit car sales share of the United States as % of total sales per car manufacturer (includes only companies with the largest stakes)



Source: Company reports, ING Research

Germany is most exposed, but Slovakia may feel the impact the most

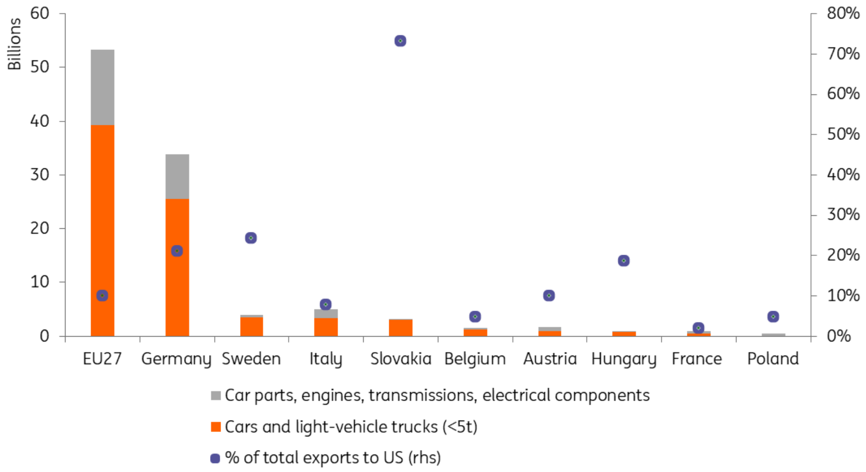
Germany's car industry is in the eye of the storm and by far most exposed in terms of value, with major players like Volkswagen, BMW, Mercedes, and Porsche likely getting hit by tariffs. Although many German car manufacturers have production facilities in the US, a significant amount of production also takes place in Mexico, and to a lesser extent in Canada.

According to S&P Global Mobility data, Volkswagen imports almost 80% of its US vehicle sales from Mexico and Canada, with Mercedes and BMW sourcing almost 20% from there. Additionally, the car manufacturers Audi and Porsche do not have production sites in the US, with the former importing from Mexico and Europe and the latter importing exclusively from Europe. Although the German automotive industry produced over 844,000 vehicles in the US in 2024, some 450,000 cars were still imported from Germany, according to the VDA. But on the other hand, they also exported some 420,000 from the US to the rest of the world, including, for instance, the X-range SUVs, which BMW produces in Spartanburg, SC. This is also quite significant and emphasises the industry's global nature.

But Slovakia – home to several car plants – is most exposed in terms of total US export volume. Notably, 73.2% of its total exports to the US consist of cars and car parts. Next to Germany and Slovakia, Italy (sports cars) and Sweden (Volvo) also have material export exposure, though to a lesser extent. Yet, when adding also the indirect exposure stemming from the supply of car parts from Germany, for example, the overall impact on these countries' automotive industries will be even more substantial. It almost immediately lifts the costs of European-branded cars in the US and erodes competitiveness, as US consumers could consider cheaper options.

Exports of cars and car parts to the United States

Germany by far Europe's largest exporter of cars to the US in terms of value, Slovakia most dependent on car exports overall (in $ billions and %)



Source: Eurostat, ING

US auto industry also hit by new tariff complications

However, additional tariffs will also impact US-based car makers. GM, for instance, sources over 40% of its cars from Mexico and Canada. Car manufacturers have expanded their footprints in these neighbouring countries following the finalization of the United States-Mexico-Canada Agreement (USMCA) under Trump. Although tariffs for cars will only apply to the value of their non-US content, any overstatement of the US content will result in the retroactive and prospective application of the 25% tariff according to the Presidential Executive Order. Consequently, paying the full 25% tariff might be preferable to avoid bureaucratic complications.

Tit-for-tat tariffs: prolonged trade war looms over auto industry

The imposition of these tariffs is set to create a ripple effect across the global automotive industry, with Japanese and Korean brands significantly impacted as well. European car manufacturers, already grappling with multiple difficulties, will face additional challenges as supply chains are disrupted and costs rise. The EU is expected to retaliate with its own set of tariffs, further escalating trade tensions.

This tit-for-tat approach could lead to a prolonged trade war, affecting not just the automotive sector but the broader economy as well. Stakeholders on both sides of the Atlantic must prepare for a period of uncertainty and increased costs, with consumers ultimately bearing the brunt of these protectionist measures.

'One stop shopping' is an illusion in car production

The car industry is one of the most globalised sectors, with spare parts coming in from all over the world. These 25% tariffs are intended to attract more production to the US, but this comes at a significant cost, as imports are often cheaper, of a higher quality or resources more easily available in another country. Even if the production balance shifts and car makers decide to manufacture more cars in the US, achieving 'one-stop shopping' with all components sourced domestically is a distant goal and therefore unlikely to change within a few years.

Relocation to Europe or elsewhere may be an option for the significant volumes of cars European manufacturers export out of the United States, but that will also depend on the retaliation of trade partners, and car makers need concentrated production to optimise scale.

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