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Navigating Trump Tariffs: Impact on Automotive Industry

3/20/2025

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Practices: Commercial, Competition & Trade

Recent developments in U.S. trade policy require businesses to prepare for both immediate cost adjustments and long-term contractual challenges. On February 10, 2025, President Trump issued proclamations effective March 12, 2025, that alter existing tariffs on steel and aluminum, eliminating longstanding exemptions and exclusions and increasing the tariffs on aluminum from 10% to 25%. On February 18, 2025, President Trump announced auto tariffs "in the neighborhood of 25%" and similar duties on semiconductors and pharmaceutical imports, which would take effect on April 2, 2025. The automotive industry and other impacted sectors are understandably on edge.

North America's automotive industry is deeply integrated, with production processes spanning the U.S., Canada, and Mexico, with trade agreements, such as the Canada-U.S.-Mexico Agreement (CUSMA), that facilitate the cross-border movement of parts and materials. Under current U.S. law, the importer of record typically bears the burden of tariff payments. However, many commercial contracts, purchase orders, and applicable terms and conditions include clauses that allocate the risk of unforeseen governmental levies or provide for relief if significant cost increases occur. The sudden imposition or escalation of tariffs may trigger provisions allowing for cost-shifting or even reclassification of the event as a "change in law" or a force majeure occurrence.

In light of these changes, there are several key considerations that auto suppliers will want to consider carefully:

1. Automotive suppliers should promptly review their existing contracts and standard terms to assess how tariff adjustments affect their rights and obligations. This review should focus on clauses addressing additional costs, regulatory changes, and performance obligations.
2. Automotive suppliers should ensure that any new contracts mitigate, as much as possible, impact from tariff adjustments.
3. Automotive suppliers should ensure their sourcing practices comply with the current CUSMA 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.

Original Equipment Manufacturers (OEMs) and suppliers should develop contingency plans in the event of potential supply chain disruptions. Such plans include sourcing materials from alternative markets or exploring new partnerships.

Automotive suppliers should evaluate their supply chain to accommodate higher input costs and potential retaliatory measures from other countries, which may further complicate international operations.

The expanded steel and aluminum tariffs, and imposition of new automotive tariffs, not only reshape the competitive landscape but also underscore the need for proactive contract management. By understanding the legal and financial implications of these new measures and reviewing contractual terms in detail, companies can better position themselves to navigate the challenges ahead.

Please reach out to your Masuda Funai relationship attorney or one of the attorneys in the Firm's Commercial Competition and Trade Department for more information on these topics or any other contractual issues.

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