



U.S. AUTO MARKET AT A CROSSROADS NAVIGATING SHIFTING POLICIES AND TARIFFS

Exploring risks and opportunities for OEMs and suppliers

EFESO
MANAGEMENT CONSULTANTS

SUPPLY CHAIN MANAGEMENT
INSIGHT

Management summary

Navigating U.S. Auto Policy Under President Trump: Risks and Opportunities

President Donald Trump's re-election introduces significant risks and opportunities for the global automotive industry. By imposing new import tariffs – as announced before – Trumps' administration is taking the protectionist agenda to the next level: 25% on Canada and Mexico, and an additional 10% on China. The upward spiral is in full swing, with counteractions from the affected countries for each new tariff imposed by the U.S.. For example, China enacted penal tariffs on U.S. goods ranging from 10% to 15% on specific goods, including vehicles. Tariff rises of 25% will hit global companies relying on steel and aluminum, especially automakers. If they cannot pass on the cost to consumers through higher prices, profits will be hit.

While the U.S. market, with 16 million annual vehicle sales, remains the second-largest globally, automakers should not and likely will not center strategies on U.S. policy alone. The EV market has experienced growth in recent years but is currently seeing slower expansion. With companies like GM, Ford, VW, and Stellantis scaling back electrification targets, conventional vehicle sales might fill the gap, partly due to limited availability of affordable EV models and delayed new product launches.

Faced with new U.S. regulations and protectionist policies, automakers must ensure their strategies are adaptable. The recent election has shown that voters can shift their allegiances quickly, and already in the mid-terms in two years, things can change. However, global plans must prioritize mega trends over volatile U.S. policies. In the following pages, we outline the challenges and propose how to navigate the uncertainties with strategies that center around speed, adaptability, and foresight.



Dr. Matthias Bauer
Managing Director

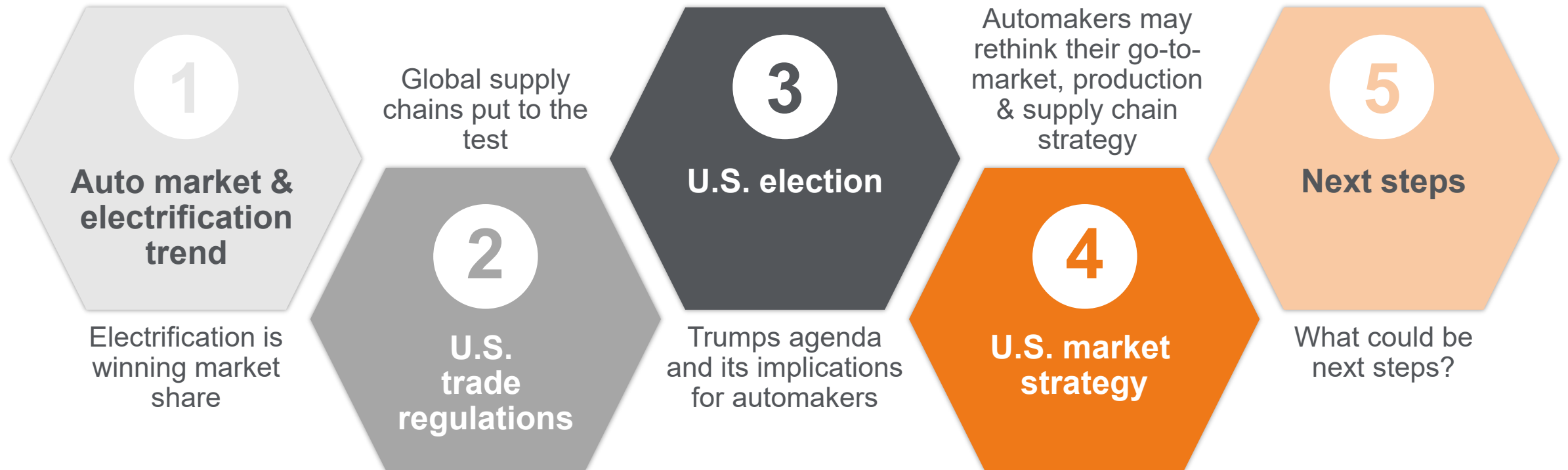


Dr. Kenneth Sievers
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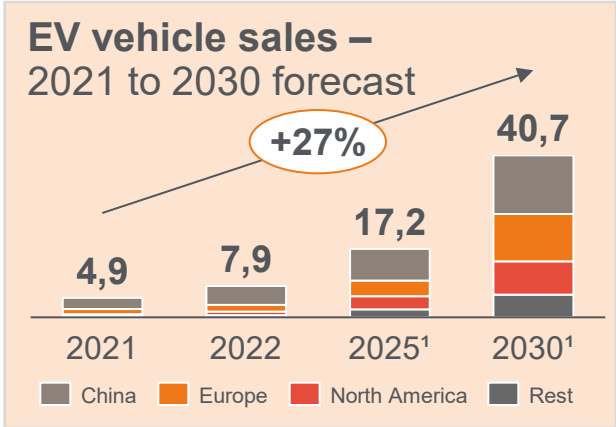
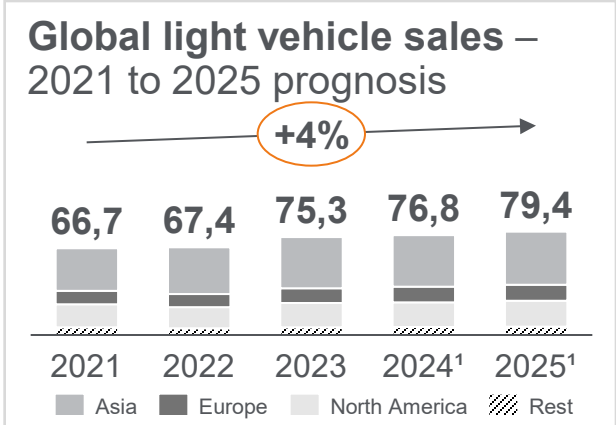


Julian Tutmann
Principal

Overview



Despite growth slow down, electric vehicles have gained significant market share over the last years, and are expected to gain more market share in the long run



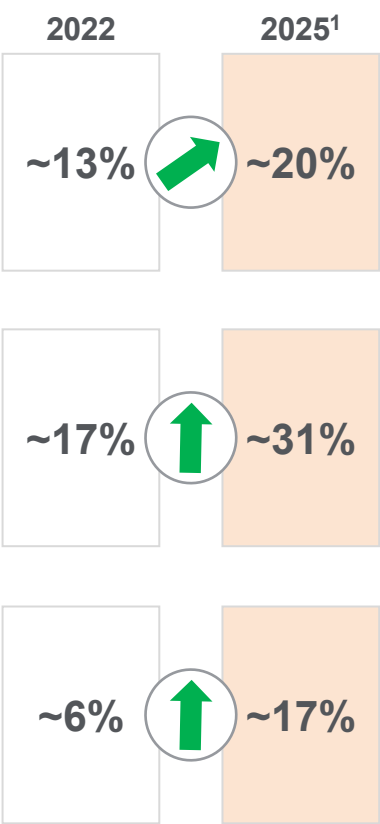
Regional market view

- Asia:**
- ~40 million units sold in total, overall growth steady, slowing down after strong recovery
 - thereof ~8 million EVs sold in China and ~15 million EVs projected by 2030

- Europe:**
- ~12 million units sold in total, slight growth
 - thereof ~4 million EVs sold in WEU & ZEU and ~12 million EVs projected by 2030

- North America²:**
- ~19 million units sold in total, slight growth
 - thereof ~3 million EVs in NA and ~8 million EVs projected by 2030

EV share develop.

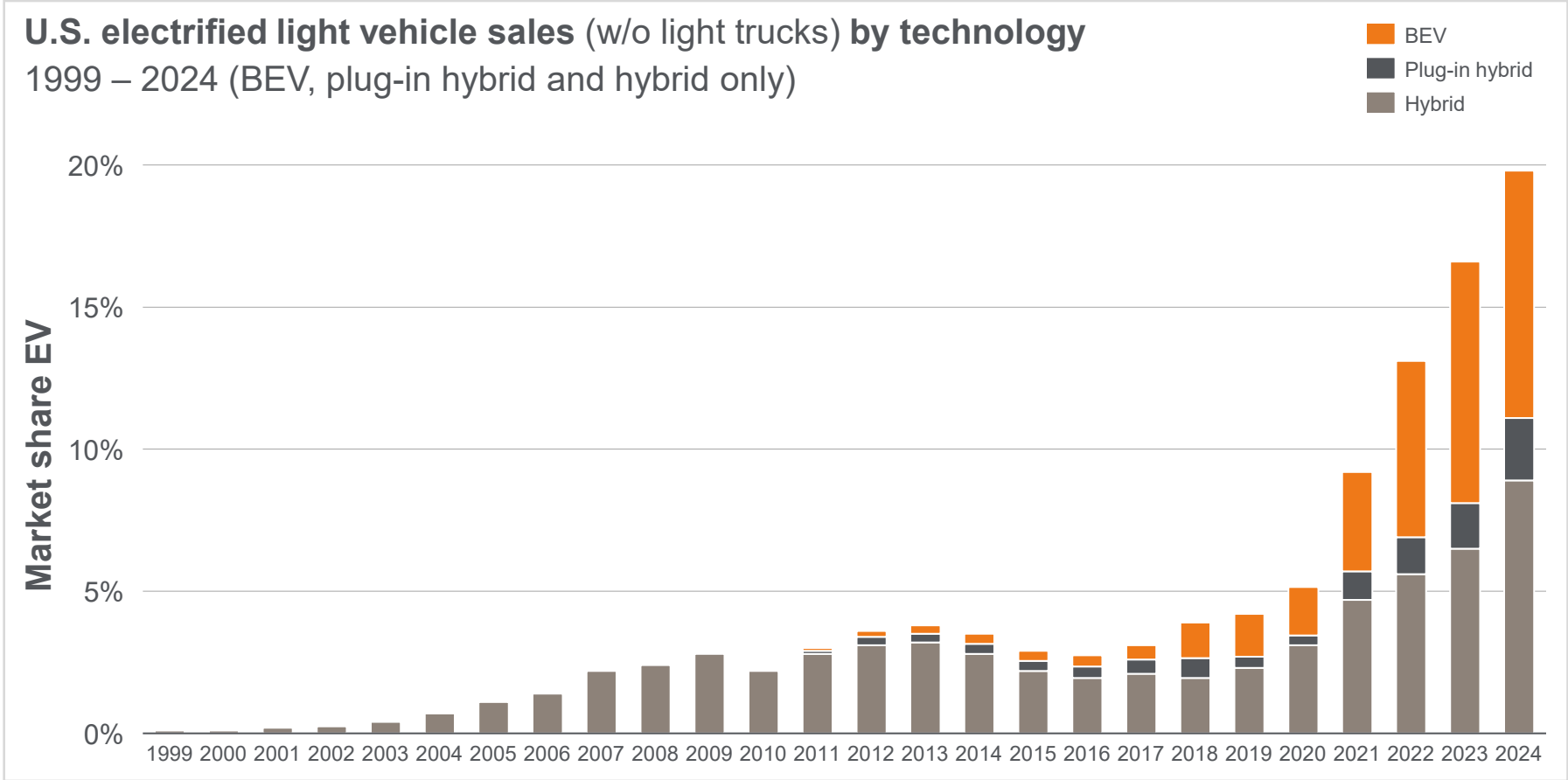


EV sales growth outperforming overall vehicle sales

Market share expected to further increase up to ~50% by 2030

Europe and China with significant and increasing EV market shares, while U.S. is catching up.

For the U.S., electrified vehicles have captured a 9% share of the light vehicle market over recent years, most coming from BEV and hybrid vehicle sales



Comments

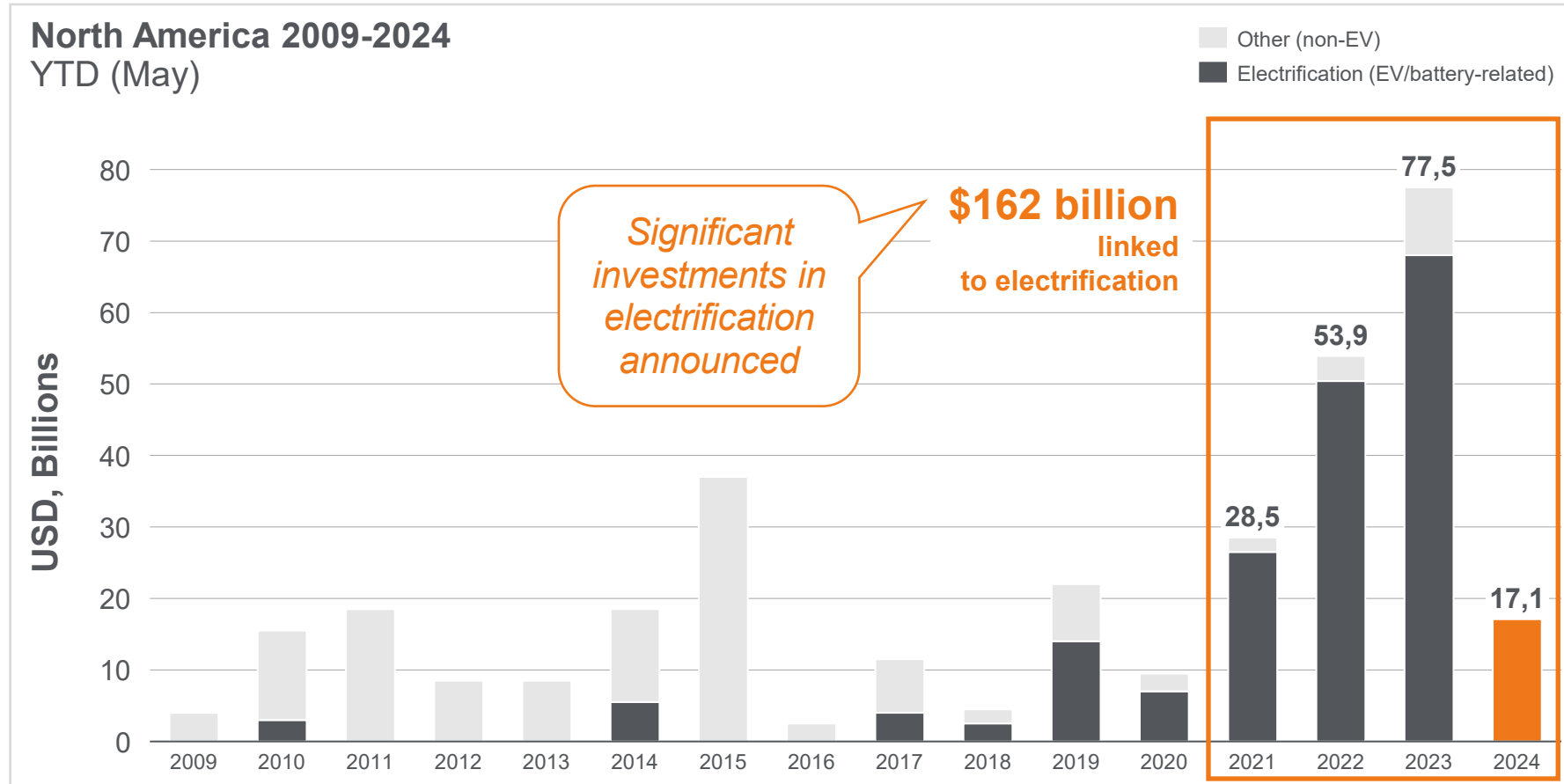
- **U.S. EV overall market share strongly increased over recent years up to >18% in 2024**
- **Especially BEV sales have grown over the last years up to ~9%**
- **Hybrid vehicle sales grew significantly to ~9%, while plug-in hybrid could capture ~2%**



The overall growth comes from electrification and the automakers investments into it.



Automaker have announced investment up to \$162 billion into electrification



Comments

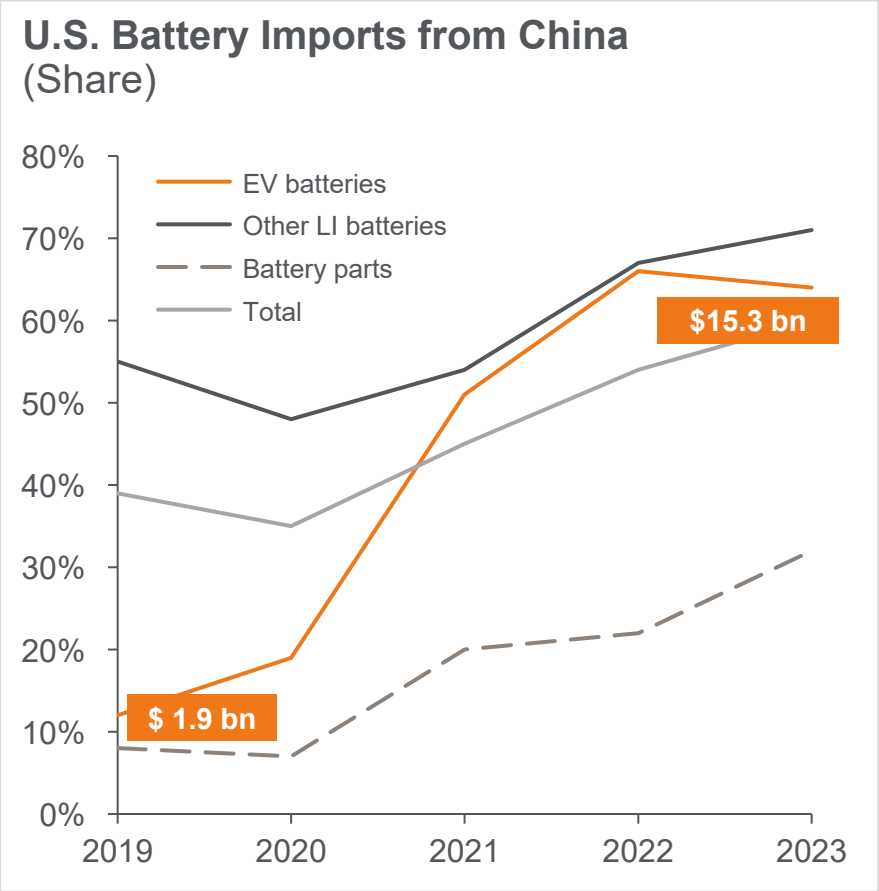
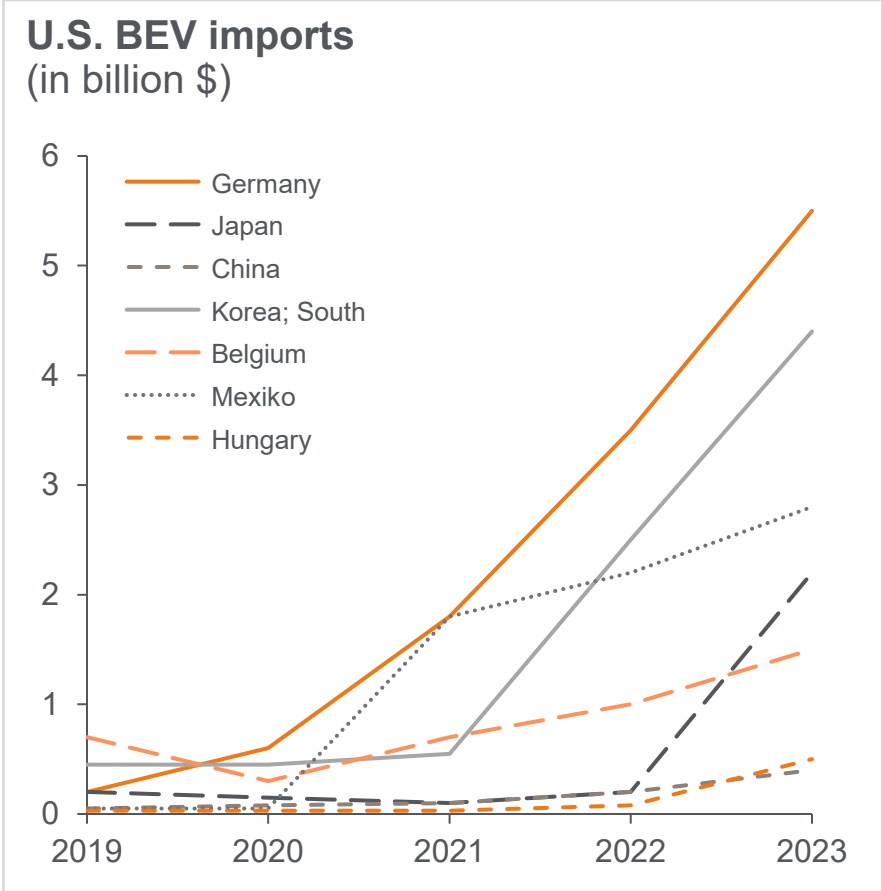
- Automakers investing **\$162 billion** in **BEV** over the last years - **strong increase** compared to pre-Corona years
- **IRA sourcing requirements** are tightening up
- **Chinese invests in Mexico** e.g., **BYD plant MX**, up to 150k cars p.a. by end of 2024
- **US-based OEMs expect EV adoption slow-down** e.g., **GM reduces EV 2024 sales forecast**
- **Government incentives for EV buying subsidies** might be eliminated (bill of Republicans)



The increasing investments in electrification leads to significant growth of BEV / battery imports.



The North American BEV imports show significant growth with increasing battery imports coming from China



Comments

- China is the 3rd -largest global exporter of BEVs by value the 7th-largest source of EVs to the U.S.
- Imports from China are not rising like those from other sources, likely due to a 25% tariff under section 301
- U.S. imports of Li-ion batteries and parts from China increased from \$1.9 billion to \$15.3 billion
- U.S. investment in battery production could significantly reduce imports from China within the next five years

The U.S. government aims to strengthen local production and reduce dependency on imports.

While U.S. protectionist regulation and tariffs are aiming to foster local production and products, global auto industry must navigate this without panic and a clear long-term focus

Protectionism: a double-edged sword

- The U.S. pursues a **protectionist policy** to push **more domestic production of vehicles & components**, e.g., by imposing **stricter regulations** and increased **import tariffs**
- **New tariffs for China, EU, Mexico and Canada** by the new administration are showing significant impact:
 - › **Non-US-based** but also **US-based** automakers face **diminishing profits**, as most of them have a **supply chain footprint** in **MX** and **Canada**, e.g., as **steel** and **aluminum tariffs increase** from 10 to 25%
 - › For those with strong **local footprint** in the **U.S.** this is **good news** and provides **opportunities to improve competitive position**



Energy policy and emission targets

- A **pro-fossil-fuel** stance like '**Drill Baby Drill**' will boost **traditional ICE vehicles** in the **short term**
- However, **over-reliance on internal combustion engines** could **risk focus on innovativeness** and **long-term irrelevance** considering **global electrification trends** and **2050 Net Zero** targets



OEMs need to review their U.S. strategy and product mix, if it allows flexibility towards even stricter, trade regulations, and shifting EV demands



U.S. policies and regulations provide both: opportunities and risk.

Four political elements of U.S regulation support the reduction of inflation, strengthen the U.S. based production and buying of regional products while fencing off Chinese products

Inflation reduction act

IRA supports **local production** and **buying of local products** by e.g., **tax credits** for **clean vehicles** and excluding **non-qualified parts and cars**



China 301 tariffs

The further **tightening of tariffs on Chinese products** is bringing the trade war between the **U.S.** and **China** into the next round



Connected vehicles investigation

Connected vehicles investigation suggest to **mitigate U.S. national security risks** by introducing **restrictions** for **Chinese vehicles / parts**



Uyghur forced labor prevention act















Uyghur forced labor prevention act prevents **sale of products made with forced labor** by **increasing inspections**



The regulative landscape will see changes under D. Trump that impact automakers localization strategies.

China 301 tariffs – the imposition of tariffs on Chinese products has a significant impact on global supply chains and the U.S.-China trade war is intensifying further



		Previous rate Implementation year	New rate Implementation year
	Electric vehicles	25% 2018	100% 2024
	Semiconductors	25% 2018	50% 2024
	Solar cells	25% 2018	50% 2024
	Syringes and needles	0%	50% 2024
	Some steel and aluminum products ^{1,2}	7,5% 2019	25% 2024
	Lithium-Ion EV batteries ¹	7,5% 2019	25% 2024
	Lithium-Ion non-EV batteries ¹	7,5% 2019	25% 2024
	Battery parts ¹	7,5% 2019	25% 2024
	Some personal protective equipment ^{1,2}	7,5% 2019	25% 2024
	Rubber medical and surgical gloves ¹	7,5% 2019	25% 2024
	Natural graphite and permanent magnets	0%	25% 2024
	Other critical minerals	0%	25% 2024
	Ship-to-shore cranes	0%	25% 2024
	All other Chinese products ³	0%	10% 2025 → Chinas reaction: 10-15% on specific goods*

Comments

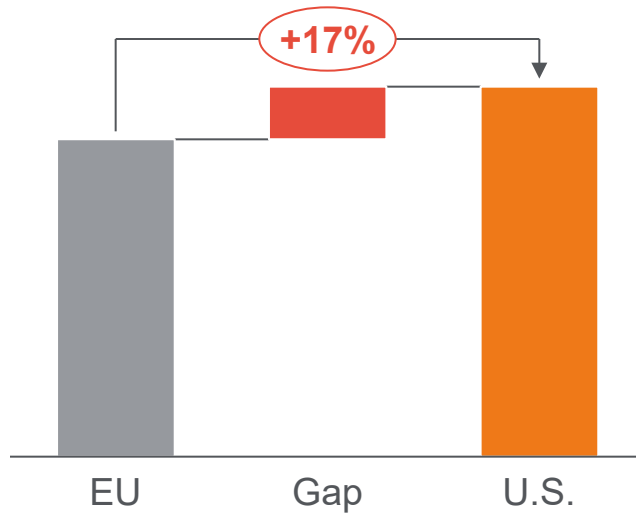
- Higher tariffs imposed on Chinese imports, especially on EVs and key technologies
- Global supply chains into the U.S. market are becoming more expensive
- New imposed by Trump: +10% on all Chinese goods – with corresponding answer from China, intensifying the trade war and further increase the cost pressure

EFESO insight: non-U.S. based automakers localization see 15-20% cost increase* for system parts for passenger cars; U.S. automakers to reduce costs to compensate increases

Axle drive simulation EU vs. U.S.

(Material cost with localization effect (wages, electricity, etc.) considered)

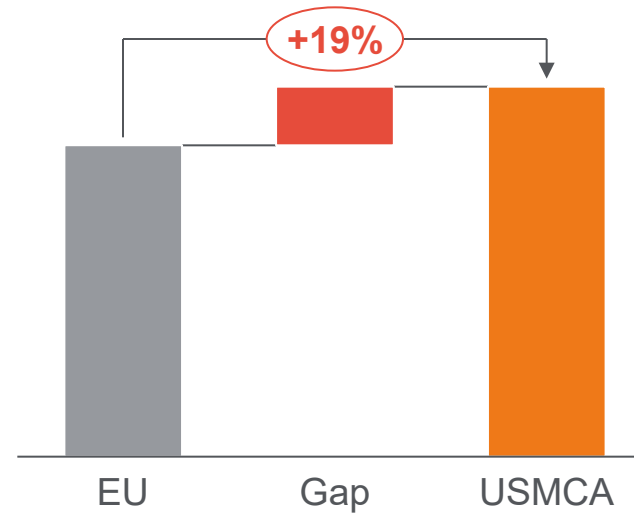
+17% costs switching
from EU to U.S.



Transmission simulation EU vs. USMCA

(Material cost with localization effect (wages, electricity, etc.) considered)

+19% costs switching
from EU to USMCA



Comments

- Our exemplary **system parts simulations** based on **detailed costing calculations** show additional costs for localization in NA:
 - **+17% cost** for **axle drive localization** in **U.S.**
 - **+19% cost** for **transmission localization** in **USMCA**



Trump increasing existing tariffs and imposing new tariffs not only affecting China and EU but also USMCA.



*Material cost with localization effect (wages, electricity, etc.) considered, without additional transport costs, tariffs, investment or lower OEE

Trumps agenda bares risk and opportunities for all automakers, depending on their footprint and their ability to balance changing policies and regulations

01

Rollback of fuel efficiency standards

- EV production urgency reduced; focus may shift to SUVs / trucks
- Risk of lagging behind global EV trends



02

End of \$7,500 EV tax credit repeal EV purchase subsidies

- Higher EV prices reduce demand
- Tesla may gain due to cost leadership; legacy automakers face profitability challenges



03

25% tariffs on Canada / Mexico imports and Aluminum / Steer globally

- Supply chain with increased costs needs re-evaluation
- Pressure to relocate production to U.S., advantage for those with strong U.S. footprint



04

Additional 10% tariff on Chinese goods, including EV batteries

- Higher EV production costs
- Need for local battery manufacturing



05

Fossil fuel support and clean energy funding cut

- Slower EV transition risks competitiveness in the long run
- Higher costs maintaining ICE and EV portfolios in parallel



Implications for automakers

- Evaluate impact of new tariffs and regulation
- Consider further diversified supply chains
- Adjust product strategies to balance ICE and EV models
- Reduce production costs to stay competitive



U.S. regulation and D. Trumps' imposed tariffs be evaluated but not dictate automakers' strategies.



The whole automotive industry needs to deliver faster and be more adaptable to change to cope better with fast shifts consumer demands and policies



U.S. vehicle market is **expected** to **grow** only **incrementally** in the coming years, the **right product / market strategy** and **portfolio** makes the difference.



Taxes might be reduced under D. Trump in the attempt to reduce the pressure on the middle class, therefore **more companies** and **consumers** may have **more money in their pocket to be spend**.



If costs will **rise** for **automakers**, e.g., from increasing import tariffs, the **products prices** for the end **consumer** will **rise**. **Consumers demand** will **decline**, especially for **BEVs**.



U.S. will still **import goods** and **EV technology** from **China going forward**, but it must be evaluated **how to handle** the **additional cost** of e.g., rising import tariffs and the **effects** on the **supply chain strategies**.



With mid-term elections only 2 years away, all needs to happen **quickly**. Automakers need to **deliver products faster** and need to be **more adaptable** to **satisfy changing consumer needs better**.



To navigate the challenges, to identify the risks and opportunities we suggest a 5-step approach.

‘Never let a crisis go to waste’ ... use it to become better!

Five recommended steps to gain transparency and decide on U.S. market strategy



01

Baseline

Generate **transparency**:

- On **supply chain** / supply base
- Share of **Chinese parts** / FEOC content
- On **forced labor**
- Impacting **regulations**
- Evaluate the **ability to become qualified**
- **Identify consumer needs**



02

Strategy

- **Explore** new regulation **risks** and **opportunities**
- **Evaluate levers** and **develop measures**



03

Product & market

- **Product / pricing strategy** in US
- **Sales target**
- **Regulations** for different **technologies** (e.g., ICE, BEV)
- **Accelerate product development**



04

Business case

- Develop **market strategy** and calculate **business case**



05

Implementation

- **Decide** and **implement** localization **strategies**
- **Start rapid efficiency programs** in your **supply chains** and your own **operation**

