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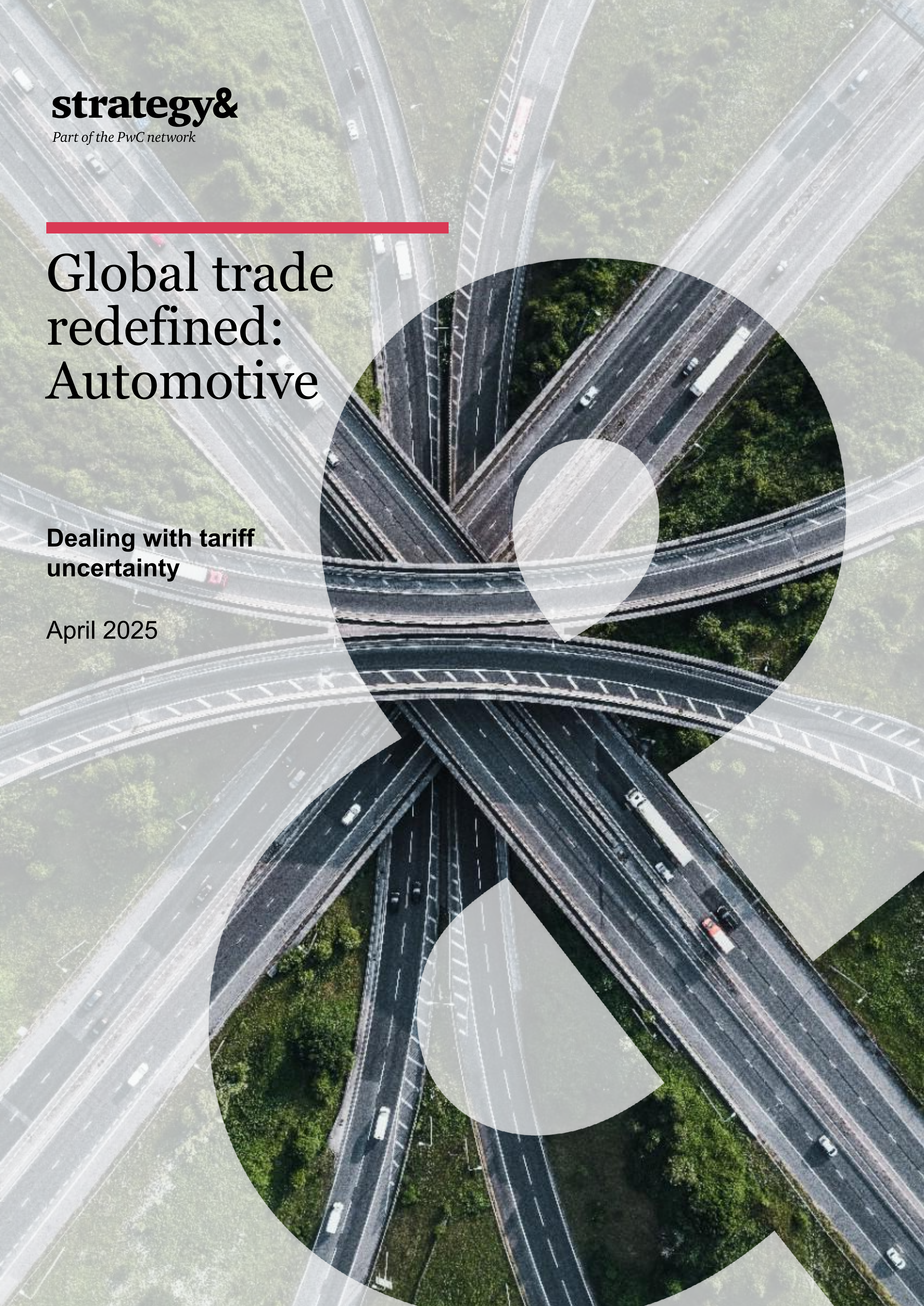
Global trade redefined: Automotive

Dealing with tariff uncertainty

April 2025



This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

The global automotive sector is the industry most directly impacted by the wave of US tariffs, with complex supply chains criss-crossing global borders, components with precise technical specifications that cannot be easily substituted, and strong price sensitivity for end customers.

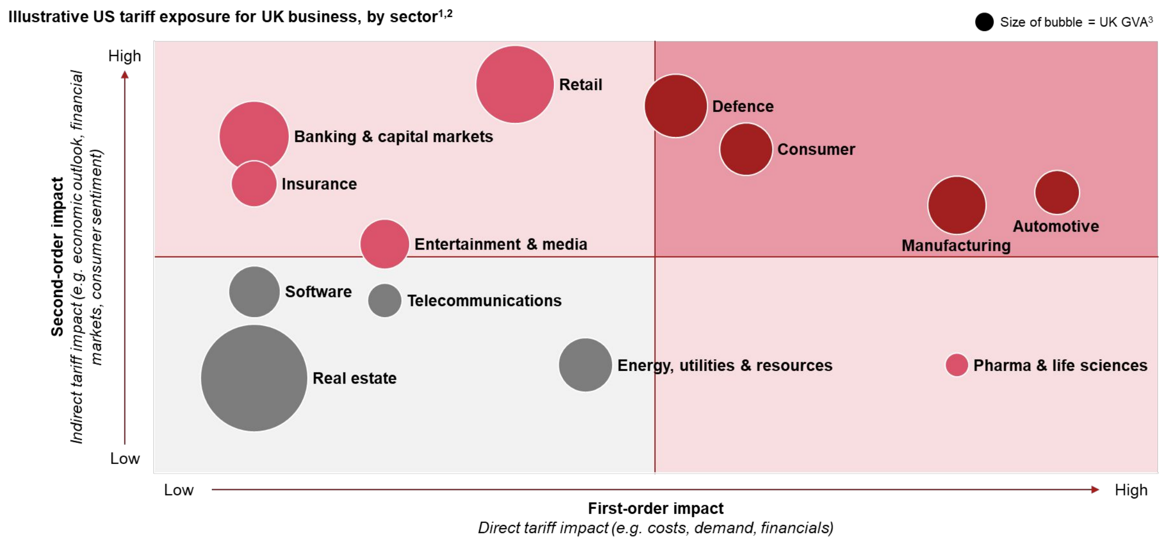
This holds true for UK-based automotive manufacturers, particularly mass-market OEMs of volume marques and their suppliers. Already under pressure to transform their product ranges and operations to meet zero emission vehicle (ZEV) mandates and compete with an influx of new OEMs from China and the Middle East, these companies are now having to grapple with the uncertain implications of US tariffs on both their sales and their operations, such as:

- Which upstream suppliers are vulnerable to tariffs and present a continuity risk to operations?
- How much will US tariffs (and possible retaliatory tariffs) increase costs of the bill of materials?
- What are the volume implications of passing these costs on as price increases (i.e. price elasticity)?

We take a closer look at the potential implications of different tariff scenarios on these automotive companies, and the steps they can take to mitigate the risks and navigate the fallout.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of ‘no regret moves’ in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&’s ‘Break and reorder’ scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

> "Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

Taking stock of tariffs

Understanding the impact on the automotive sector

A perspective on the sector overall

The reintroduction or escalation of tariffs by the US under a Trump administration would have significant ramifications for the UK automotive industry, which is among the sectors most directly exposed to such policy shifts. As a producer of high-value, physical goods with substantial export volumes to the US and highly complex, multi-tiered global supply chains, the sector is uniquely vulnerable.

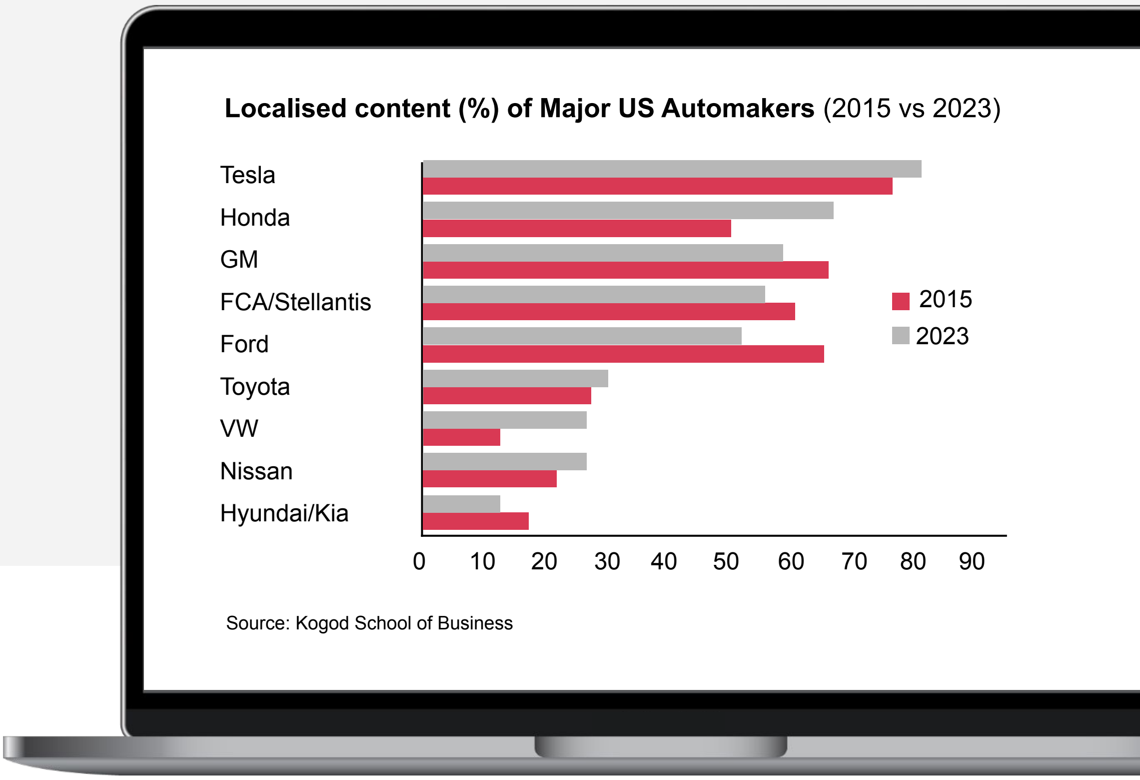
Direct impacts would likely vary by segment. Premium manufacturers, typically operating with higher margins, may be better positioned to absorb cost increases or pass them on to consumers with less risk of demand attrition. In contrast, mass-market vehicle makers, for whom pricing is a more sensitive lever, could see sharper declines in competitiveness and volumes in the US market, especially if tariffs are passed through to end-users.

Beyond immediate pricing effects, second-order impacts from supply chain disruption are potentially even more significant. The automotive sector relies on finely tuned, cross-border logistics networks, and many components, particularly for electric vehicles (EVs), cross multiple borders before final assembly.

Key inputs, such as EV batteries, most of which are sourced from China, pose a critical bottleneck, with limited alternative supply routes in the short term. Many manufacturers also lack transparency beyond Tier 1 suppliers, reducing their ability to swiftly pivot or build supply chain resilience.

Compounding these challenges is the fact that vehicles are discretionary, high-value purchases, making the sector more susceptible to broader macroeconomic headwinds. However, softer economic conditions could bring some relief in the form of lower interest rates, potentially supporting consumer demand. As affected geographies seek alternative markets, the increased availability of certain components could also ease some cost pressures.

But any disruption to EV component supply chains could slow the pace of electrification, an area of strategic importance for UK manufacturers, posing longer-term competitive risks in a rapidly evolving global market.



Taking stock of tariffs

Assess the impacts and short term actions

Tax and operational assessment

While the medium to long-term structural impact on the automotive sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority for automotive operators is to thoroughly assess and quantify the tariff implications from a tax and operational perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure.

01 Conduct/validate impact assessments, including understanding the physical product / material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods are substantially manufactured.

04 Review the customs classification of goods. For example, should any generically classified automotive parts be more precisely classified elsewhere and be removed from the 25% automobile tariffs and be subject to the 10% additional tariff instead?

05 Understand the value build up of the price to ensure the custom value is correct and review cost components.

06 Consider from a transfer pricing perspective that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

07 Consider the US specific valuation principles.

08 Review contracts to confirm whether they include a tariff cost adjuster / escalator in terms of cost

09 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.

Navigating the potential fallout

Short and longer term actions you should take

There are several short and longer-term moves that automotive businesses can consider in responding to the evolving market situation.

Short-term ‘no regret’ moves	Moves to capture maximum value over the longer term
• Consider the tax points noted on the previous page, and evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view)	• Localise production or final assembly in the US or other regions to align with customer preferences for onshore manufacturing
• Enhance supply chain visibility and transparency to better understand supplier dependencies and mitigate risks associated with disruptions in the supply chain, such as semiconductor shortages.	• Explore vertical integration of critical components, such as motors and battery cells, to reduce reliance on external suppliers and enhance control over the supply chain.
• Adjust pricing strategies to reflect the tariff costs and the demand elasticity of different customer segments, while maintaining value for money and customer loyalty.	• Invest in innovation and technology, particularly in the EV segment, to gain a competitive edge and meet the changing customer needs and regulatory requirements.
• Diversify export markets to reduce dependency on the US and explore opportunities in the Middle East and Asia, where demand for British automotive products may be higher and less affected by tariffs.	• Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective.
• Strengthen engagement in policy dialogue with the UK government and industry bodies to influence future trade negotiations and seek potential exemptions or exclusions from tariffs by creating visibility of scenario modelling impact studies to drive informed policy change.	

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With the unpredictability surrounding US tariffs and the broader supply chain challenges, it's vital Automotive manufacturers create data-driven scenario plans and consider ways in which they can build flexibility into their supply chains and operations.”

Dom Tribe, Strategy& and PwC UK Automotive Sector Leader

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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