Trump Announces 25% Tariffs on Imported Cars and Car Parts

The measure, which is intended to bring car factories to the United States, could significantly raise prices for consumers.

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President Trump said on Wednesday that he would impose a 25 percent tariff on cars and car parts that were imported into the United States, a move that is likely to raise prices for American consumers and throw supply chains into disarray as the president seeks to bolster U.S. manufacturing.

The tariffs will go into effect on April 3 and apply both to finished cars and trucks that are shipped into the United States and to imported parts that are assembled into cars at American auto plants. Those tariffs will hit foreign brands as well as American ones, like Ford Motor and General Motors, which build some of their vehicles in Canada or Mexico.

Nearly half of all vehicles sold in the United States are imported, as well as nearly 60 percent of the parts in vehicles assembled in the United States. That means the tariffs could push up car prices significantly when inflation has already made cars and trucks more expensive for American consumers.

During remarks at the White House, Mr. Trump said the tariffs would encourage auto companies and their suppliers to set up shop in the United States.

“Anybody who has plants in the United States, it’s going to be good for,” he said.

But the auto industry is global and has been built up around trade agreements that allow factories in different countries to specialize in certain parts or types of cars, with the expectation that they would face little to no tariffs. That has been particularly true for North America, where national auto sectors have been stitched together by trade agreements since the 1960s.

Mexico is the largest source of vehicle imports in the United States, followed by Japan, South Korea, Canada and Germany.

Stock markets fell on news that the auto tariffs would be imposed. Shares of major carmakers tumbled further in after-hours trading, after the White House clarified that the tariffs would also cover imported auto parts. General Motors was down nearly 7 percent and Ford and Stellantis were more than 4 percent lower after the markets closed. Tesla’s stock fell 1 percent in extended trading.

Mr. Trump argues that the tariffs will increase domestic auto production, but it's not clear how fast he can accomplish that goal. Tariffs can encourage companies to use more products from the United States and expand production, but new factories typically take several years and can cost billions of dollars to construct.

The additional costs that tariffs will introduce could also backfire economically, harming the U.S. auto industry by squeezing its profits and slowing its sales.

The measure could also set off more trade clashes with foreign countries that send many cars to the United States. And it could invite retaliation on American exports, including cars and agricultural products.

Peter Navarro, the senior counselor to the president on trade and manufacturing, told reporters Wednesday that "foreign trade cheaters have turned America into a lower-wage assembly operation for foreign parts." He added, "That threatens our national security because it's eroded our defense and manufacturing industrial base."

Mr. Navarro singled out countries including Germany, Japan and South Korea, saying they had undermined the ability of U.S. companies to sell their cars abroad. "It's simply, simply not fair, and that's going to change," he said.

Some groups praised the tariffs. In a statement, the president of the United Auto Workers union, Shawn Fain, said the tariffs would "end the free-trade disaster that has devastated working class communities for decades."

"Ending the race to the bottom in the auto industry starts with fixing our broken trade deals, and the Trump administration has made history with today's actions," he said.

But others said the auto tariffs would hurt the United States as well as other countries.

"Throwing away tens of thousands of jobs on both sides of the border will mean giving up North America's auto leadership role," Candace Laing, president of the Canadian Chamber of Commerce, said. "This tax hike puts plants and workers at risk for generations, if not forever."

The tariffs have the potential to devastate auto and auto parts manufacturing in Canada, which employs about 125,000 people directly and accounts for about 10 percent of the country's manufacturing output. About 80 to 90 percent of Canadian production is exported.

Canada's prime minister, Mark Carney, called the announcement "a direct attack," and said that because of the tariffs the historic ties between Canada and the United States "are in the process of being broken." Mr. Carney said he would gather his cabinet on Thursday to determine what steps Canada would take in response.

The situation is similarly dire in Mexico, where automotive manufacturing accounts for about 5 percent of the country's economic activity and employs about one million people, according to Capital Economics.

General Motors manufactures some of its Chevy Silverado and GMC Sierra full-size pickup trucks in Mexico. Toyota's Tacoma pickup and two Stellantis models, the Ram pickup and Jeep Compass sport utility vehicle, are also made there. Factories in Canada make the Silverado, Toyota's RAV4 sport utility vehicle, the Honda CR-V and other popular models.

The administration said the 25 percent tariff would apply to both cars and car parts made in Canada and Mexico, despite the U.S. trade agreement signed with those nations. It created a small exception to those levies, saying any content or materials that originated in the United States but were incorporated into cars finished in Canada and Mexico would be exempt.

Otherwise, White House officials indicated that there would be no exemptions, and Mr. Trump said Wednesday that he expected the tariffs to be permanent.

Given the size and importance of the auto industry, the effect of the tariffs will cascade through the economy.

About one million Americans are employed by auto and parts manufacturers, according to the Bureau of Labor Statistics, and two million more are employed at dealers that sell cars and parts. And cars are often the single biggest purchase for American families, meaning that additional costs from tariffs could weigh heavily on consumers.

Mr. Trump's decision to impose car tariffs escalates his aggressive trade approach. Since coming into office, he has put an additional 20 percent tariff on all U.S. imports from China. He also imposed a 25 percent tariff on almost all goods from Canada and Mexico, before exempting roughly half of those imports, which trade under the rules of the North American trade agreement.

Mr. Trump plans to introduce more levies next Wednesday, when, he has said, he will announce "reciprocal tariffs" that match the high tariffs and other trade barriers that other countries impose on American exports. Mr. Trump said on Wednesday that the tariffs would be "very fair" and "very nice."

"We're going to make it very lenient," he said. "I think people are going to be very surprised."

Mr. Trump's car tariffs will be imposed under an old trade case from his first term, which used a national-security-related legal authority known as Section 232. In 2019, his administration carried out an investigation into car imports and concluded that they threatened national security.

In a presidential proclamation on Wednesday, Mr. Trump said the national security concerns had only "escalated" since then. He said revisions he had made in his first term to U.S. trade agreements with South Korea, Canada and Mexico "had not yielded sufficient positive outcomes."

In a call with reporters on Wednesday, a White House rebutted concerns that the auto tariffs could result in a major uptick in car prices, pointing to Mr. Trump's push to secure a new tax deduction for interest payments on auto loans, which would be limited to American cars.

But most analysts have predicted sharp price increases from tariffs. Before the details were announced, Jonathan Smoke, chief economist at Cox Automotive, a market research firm, estimated that a 25 percent tariff on goods from Mexico and Canada would add $3,000 even to the cost of a car built in the United States, since automakers depend on many foreign components.

Tariffs would add $6,000 on average to the prices of cars made in Mexico or Canada, a category that includes vehicles like the Toyota Tacoma pickup, gasoline and electric versions of the Chevrolet Equinox, and several models of Ram pickups, according to Cox estimates.

Mr. Smoke said higher prices would deter buyers and force automakers to curtail production. He estimated that U.S. factories would produce 20,000 fewer cars per week, or about 30 percent less than usual.

"By mid-April we expect disruption to virtually all North American vehicle production," Mr. Smoke said Wednesday on a conference call with clients and reporters. "Bottom line: lower production, tighter supply and higher prices are around the corner."

There could be a temporary benefit for companies, including Ford, Hyundai and Stellantis, that have large numbers of unsold vehicles on dealer lots. Vehicle shortages caused by tariffs will allow them to clear inventory without cutting prices. But the benefit would be short-lived.

Carmakers may be able to blunt some of the impact from tariffs because they have designed factories to produce different models on the same assembly line.

"Changes in production are always an option," said Jörg Burzer, a member of the management board at Mercedes-Benz who oversees production at the German automaker.

But it will not be possible for Mercedes to completely avoid the impact of tariffs, which will add substantially to the prices for new cars. Tariffs "would definitely add to the cost, that's clear," Mr. Burzer said in an interview in Berlin last week.

In an effort to appease the Trump administration, some foreign carmakers have pledged to expand their manufacturing operations in the United States.

Hyundai Motor said during an event with Mr. Trump at the White House on Monday that it would invest $21 billion in the United States over the next four years. The South Korean company, which already has large factories in Georgia and Alabama, said the new investments would include a factory in Louisiana to produce steel for Hyundai, Kia and Genesis cars.

Mercedes, which produces S.U.V.s in Alabama, plans to expand its U.S. operations, Ola Källenius, its chief executive, said in an interview in Rome this month. “We are 100 percent committed to the United States and will continue to be so and are poised to do more,” he said, without giving specifics.

Simon Romero, Ian Austen and River Akira Davis contributed reporting.