

# CLIENT ALERTS

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## What Does the President's March 26, 2025 Executive Order Instituting Tariffs on Automobiles and Automobile Parts Mean for Suppliers

### Client Alert

3.27.2025

Despite recent assurance that the tariffs announcements expected on April 2<sup>nd</sup> would not be "sector-specific", on March 26, 2025 President Trump issued a new Executive Order title "Adjusting Imports of Automobiles and Automobile Parts Into the United States." The President stated the move was intended to bring the auto industry back to the US, as well as to generate billions of dollars of new revenue for the US. Significantly, 25% tariffs will now apply to all imports of passenger vehicles and light trucks, and certain automobile parts (specifically engines and engine parts, transmissions and powertrain parts, and electrical components) imported into the US. The tariffs will take effect on April 3, at 12:01 a.m. EDT for vehicles and on May 3, 2025 at 12:01 a.m. EDT for parts.

The Executive Order provides for an exception to the 25% tariffs where an importer can submit documentation showing the amount of "US Content" incorporated into their automobiles. At the discretion of the CBP, the "dutiable value" of those vehicles may then be reduced by the value of the parts "wholly obtained, produced entirely, or substantially transformed" in the US (this is similar to the approach previously announced in regard to imports of steel and aluminum that exempted US content from the duty.) For auto parts that currently qualify under the United States-Mexico-Canada Agreement (USMCA), the tariff is suspended until the Commerce Department and the US Customs and Border Protection (CBP) establish a process to apply to the value of their non-US content.

Yesterday's Executive Order relies upon the February 17, 2019 report provided to President Trump in his first term by then Secretary of Commerce Wilbur Ross. The report, which was not published until July of 2021, followed an investigation into the effects of imports of passenger vehicles and light trucks, and

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certain automobile parts (specifically engines and engine parts, transmissions and powertrain parts, and electrical components) on the national security of the United States under Section 232 of the Trade Expansion Act of 1962.

The Secretary of Commerce found and reported that automobiles and certain automobile parts were being imported into the US in such quantities and under such circumstances as to threaten to impair the national security of the United States. Based on continued monitoring by the Secretary of Commerce, President Trump has now determined that those security concerns remain and have escalated. The President also determined that agreements such as the USMCA and other bilateral agreements that he entered into during his first term have not yielded sufficient outcomes to reduce the threat to national security by the import of automobiles and certain automobile parts.

The White House stated that the 25% tariff would be added to existing duties, including a 2.5% tariff already imposed by the US, as well as existing 25% tariffs on light trucks (known as the “Chicken Tax”). They would also potentially be added on top of 25% tariffs on goods from Canada and Mexico that President Trump previously imposed because he said those countries weren’t doing enough to disrupt the illicit fentanyl trade; and to the recent steel, aluminum and Venezuelan oil tariffs.

The President also emphasized during his press conference that the tariffs were “permanent”: that there would be “no exemptions”; and there would be “strong policing” (particularly with regard to parts).

But, what effect does this Executive Order have on suppliers?

1. Automotive parts that qualified for preferential duty treatment under USMCA will be exempt for the 25% tariffs even if they are otherwise identified as parts subject to the 25% tariff, at least until there is a process to apply the tariff to the value of the non-US content of such parts.
2. Non-USMCA automobile parts listed in a forthcoming publication to the Federal Register, shall be subject to 25% tariffs no later than May 3, 2025, and shall continue until modified.
3. Automobile “knock-down kits” or “parts compilations” to be assembled in the United States will not be subject to the 25% tariff.
4. Automobiles and automobile parts entered into the US that are otherwise subject to the 25% tariff will be entered under “privileged foreign status”, meaning they will be subject to any ad valorem rates and the ability to substantially transform such articles in the Foreign Trade Zone is not possible;
5. Within 90 days (June 24), Commerce will establish an inclusion process for auto parts. Inclusion requests may be made by a domestic auto or auto part producer or an industry association. A request must establish that imports of the part in question have increased such that it threatens national security or otherwise undermines the objectives of the Section 232 auto and auto parts report. Commerce must render a decision within 60 days and publish the decision in the Federal Register within 14 days;

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6. Although no countries have formally announced retaliatory tariffs, it is likely that they could also adversely affect both vehicles and parts;
7. Because of the pressures on automobile manufactures from this order, and the exceptions for “US Content” declarations, suppliers can expect their customers to push hard for certifications to support those declarations and perhaps shifts in supply chains to enable a greater amount of US content in foreign assembled automobiles.

Butzel will be hosting a webinar on April 3, 2025 where we will be diving more deeply into these issues, reciprocal tariffs and other key issues.

As always please contact the authors of this Alert or your Butzel attorney for further assistance.

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