CENTER FOR AUTOMOTIVE RESEARCH

CAR MBS Roundtable Discussion

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Impact of Automotive Tariffs: Understanding the Effects on Parts, Tooling, and Vehicles

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Introduction

The Center for Automotive Research (CAR) MBS 2026 roundtable series convened automotive leaders from the U.S. and Canada to discuss one of the industry's most pressing challenges: how tariffs are redefining manufacturing, supply chains, and the future of North American competitiveness. Participants included automakers, suppliers, researchers, and representatives from Canada and the United States for a dialogue on the trade and operational strains facing the industry resulting from tariffs.

The discussion exposed a critical inflection point for the North American automotive industry. Key issues centered around the consequences of tariffs on automakers and the increasing strain on the supply base. Additionally, the unintended consequences focused on reduced investment in innovation and talent. The discussion highlighted tariff impacts in the broader context of how North America can maintain competitiveness with the rising challenge of the Chinese automotive industry.

Further discussions expanded upon the disruptive effects of tariffs in juxtaposition with China's rapid innovation cycles, the ability of Chinese firms to absorb China-specific tariffs, and greater integration between European and Chinese firms. USMCA is being renegotiated, the industry faces the dual task of navigating dynamic and destabilizing trade policies while trying to close a widening global innovation gap.

Key Operational Pain Points:

Administration and policy turnover has strained domestic suppliers and forced the industry to preserve short-term profits at the cost of future advancements. Participants expressed the following:

- **Instantaneous Implementation:** The near instantaneous implementation of tariffs rather than a phased-in approach that accounts for the long timeframes required for onshoring production creates challenges for investment planning.
- **Pre-existing Pressure:** The industry was already in a fragile state from supply chain disruptions and stranded capital due to the EV slowdown.

Tariffs add additional pressure that limits capital expenditure and forces cost-cutting measures.

- **Upstream Tooling Challenges:** Lead times for domestically-produced machinery and tools have doubled, and Tier 3 and 4 suppliers are unable to afford necessary tooling, thereby increasing domestic reliance on the global market.
- **Innovation Drain:** To preserve margins and minimize tariffs being passed through onto price, automakers and suppliers are delaying programs and making cuts to R&D and human capital. The automotive sector is losing talent to more lucrative tech industry jobs and stalling the innovation engine required for long-term success.
- **Structural Paralysis:** Participants identified several interconnected challenges that exacerbate investment uncertainty, including evolving tariff policies, the costs of retooling, an aging workforce in critical technical occupations, and increasing complexity and costs associated with supply chain tracking requirements.
- **Automaker-Supplier Relationship Strain:** Suppliers are absorbing tariff costs to preserve relationships and avoid losing business. This is unsustainable: suppliers are quietly accumulating financial pressure, which weighs on long-standing automaker partnerships.

Regional Fragility and USMCA Implications:

Participants reported that North American unification is required to be globally competitive and regional infighting is a self-inflicted burden that only benefits the global competition.

- **Allied Impact:** Tariffs often act as blunt instruments, inadvertently penalizing North American allies. For example, over half the content in vehicles assembled in Canada originates from within the U.S. compared to the slight-to-none contained in imported vehicles from overseas. Yet, current tariff policy effectively treats these vehicles the same.
- **State Disparities:** The Great Lakes region, Michigan in particular, is disproportionately impacted by the United States' tariff policies against Canada and the resulting retaliatory tariffs. States with large automotive footprints shoulder more of the economic burden.
- **Regional Synergy:** Each country brings its own unique strengths to the table. Together, the combined capabilities of these three countries

represent a powerful and unified partnership that stabilizes the regional supply base against global competition.

Strategic Recommendations for Policy Engagement:

Federal policy needs to align with the industry's operational needs. Participants identified opportunities for sustainability and competitiveness in the following areas:

- **Phased Policy:** Use tariffs as a tool with phased implementation to allow for feasible reshoring and preventing destabilization.
- **Advanced Manufacturing:** Focus on leveraging high-value automation to boost production speed and offset U.S. labor shortages while maintaining global leadership in innovation and advanced manufacturing.
- **Regulatory Refinement:** Leverage Canada's streamlined permitting process and revisit complex compliance requirements for in-region trade.
- **Future Trade Agreement:** The United States cannot be globally competitive alone. A tri-lateral trade deal that enables a cohesive North American region will be critical to the long-term sustainability of the domestic automotive industry.

Conclusion

The Center for Automotive Research Tariff roundtable highlighted the importance of sustained collaboration among automakers, suppliers, researchers, and policymakers to work through the industry's biggest challenges. While reshoring manufacturing capacity is a key objective of the U.S. tariffs, the success of the automotive industry depends on consistent industrial policy and a collaborative North American strategy.

CAR remains committed to convening leaders in these critical discussions as a research partner with independent and unbiased research and as a reliable source to policymakers and industry stakeholders. We invite industry stakeholders and policymakers to return to the table. The stakes are high, the landscape is shifting, and the conversations are far from over.

About the Authors

Center for Automotive Research

The Center for Automotive Research (CAR) is an independent, non-profit organization conducting industry-driven research and analysis. Focusing on critical areas like Energy & Sustainability, Technology, and Labor, Economics, and Policy, CAR has been a trusted resource for the automotive industry for over twenty years. www.cargroup.org

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