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Situation Report:
May 4, 2026

Renewed US–EU Auto Tariff Escalation

Forced Regionalisation of the European Automotive Industry

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Executive Summary

- **What changed (May 2026):** The US is moving to raise tariffs on EU passenger vehicles and light trucks (HS 8703/8704) back to 25%, reversing the prior 15% level. This sits on top of existing **Section 232** measures on auto parts, steel, aluminium, and copper, creating a layered tariff structure across the automotive value chain. Implementation details and scope should be confirmed in Federal Register/CBP guidance.

- **Existing measures remain in force and stack:** US Section 232 duties on autos and parts (25%), metals tariffs (steel, aluminium, copper), and EU-side measures including CBAM (financial liability from Jan 2026) and countervailing duties on Chinese BEVs (17–35.3% + 10% MFN). The key shift is the cumulative effect, not any single measure.

- **Further escalation risk remains:** The US Section 301 investigation into industrial overcapacity (initiated Mar 2026) could extend tariffs to additional EU industrial goods.

- **This is no longer a temporary tariff cycle:** Legally anchored, multi-layered trade measures increase cost, complexity, and planning uncertainty. The system is shifting from globally optimised supply chains toward regionally constrained ones.

- **OEMs retain some flexibility:** however, pressure is building in the supplier base: limited financial headroom, forced regional footprint expansion, and reduced visibility on volumes. Supply chains are being duplicated, increasing fixed cost and inefficiency.

- **Structural constraint:** Regionalisation does not remove dependency on critical inputs (e.g. rare earth magnets, semiconductors, battery materials), which are geographically concentrated. Exposure becomes less visible, not eliminated.

- **Near-term outlook:** Base case is persistent friction through 2026–2027. Tariffs remain elevated, localisation accelerates unevenly, and cost pressure becomes structural rather than cyclical.

1. Overview

In May 2026, the United States moved to **raise tariffs on European automotive imports back to 25%, reversing the previously reduced 15% level** and reinforcing a broader shift toward a more restrictive trade environment. This action sits on top of existing Section 232 measures on vehicles, auto parts, and key industrial inputs such as steel, aluminium, and copper, creating a layered tariff structure across the automotive value chain.

Combined with EU measures including the Carbon Border Adjustment Mechanism (CBAM) and countervailing duties on Chinese electric vehicles, the result is not a single policy change but a cumulative tightening of trade conditions that is increasingly structural rather than temporary.

From a risk perspective, this no longer looks like a tariff cycle that can simply be waited out. The more useful working assumption right now is that we are entering a period of forced regionalisation. For years, the industry has been built around globally optimised supply chains: lowest cost, high utilisation, tightly interconnected across regions. That model is now being challenged. Not gradually, but through policy decisions that are moving faster than the underlying industrial system can realistically adapt.

The recent tariff changes are a clear signal: the U.S. has created a trade environment that is both more complex and more binding than before. Key elements are now legally anchored and harder to reverse quickly.

2. Tariff Impacts

2.1 Forced Regionalisation: Impacts on the EU Automotive Industry

The industry response appears straightforward: adjust pricing, shift product mix, and look again at where production sits. However, the tariff raise will not impact all players in the automotive industry equally: effects will likely emerge first in the supplier system, not at the OEM level.

OEMs still have options: they can rebalance production, absorb some cost, or phase investments.

However, suppliers are in a different position. They are being pulled into new regional footprints without the same financial flexibility or visibility on future volumes. Many are already operating under severe pressure.

2.2 Duplication is the Hidden Cost

The U.S. tariffs make cross-border supply chains structurally more expensive and less predictable, which in turn pushes companies to regionalise: aligning production locations more closely with end markets.

From a system perspective, the effect is duplication. While production capacity is being added in new regions in response to tariffs, the existing structures remain in place. For automotive suppliers and OEMs, this means higher fixed cost, more complexity, and less efficiency.

However, relocation doesn't fully solve the exposure. Many critical inputs in the automotive industry cannot simply be moved. Materials and components further down the supply chain (rare earth magnets, certain semiconductors, battery materials) remain geographically concentrated – often in places with a strained relationship to the U.S. As such, even if final assembly or Tier-1 production is localised, the dependency remains.

2.3 The Effect on Commodity Management

For commodity management, this is a fundamental shift. The framework itself is changing, and it is changing in layers: tariffs, carbon costs, and trade measures stacking on top of each other. In some cases, the same material can be exposed multiple times throughout the value chain. Likewise, dependencies on critical materials are not reduced by regionalisation.

Political uncertainty increases complexity. The next decisions, particularly on the European side, will impact the investment environment over the next one to two years: long-term decisions in a short-term political environment. The question: how much flexibility do we keep, and how much do we commit?

2.4 Next Steps

If tariff escalation turns into a persistent shift, late moves in commodity management and production planning will be expensive and difficult to unwind. At the same time, moving too early carries its own cost particularly if parts of the current regime soften over time.

From a risk standpoint, the asymmetry is relatively clear. Preserving optionality has a cost, but it is manageable. Being structurally locked into the wrong setup, whether in footprint, contracts, or supplier base, is much harder to fix.

So the practical conclusion is not to overreact. But it is also not to wait this out and hope it resolves. The more realistic approach is to treat regionalisation as the working assumption, while staying flexible enough to adjust if the environment shifts again.

3. Tariffs and Exposure

This section is provided for orientation and discussion purposes only. It reflects a high-level interpretation of publicly available information as of 4 May 2026. Tariff regimes, scope definitions, and applicable rates remain subject to ongoing regulatory development, interpretation, and enforcement guidance.

The HS/HTSUS/CN mappings are indicative and summarised at chapter and heading level. Binding tariff treatment is determined at the ten-digit line level and should be confirmed directly against primary legal sources, including the U.S. Federal Register, U.S. Customs and Border Protection (CBP), the Official Journal of the European Union, and DG TAXUD publications.

3.1 Most-Exposed Commodities

Metals

On the metals side, exposure is concentrated in core automotive inputs: hot-rolled and cold-rolled coil (HRC/CRC) for body-in-white; automotive aluminium sheet (5xxx and 6xxx series) for closures and structural components; electrical steel for traction motors; and copper in the form of wire and busbars for high-voltage harnesses and motors.

Additional exposure sits in specialty components such as fasteners (HS 7318) and castings (HS 7325, 7326), which are widely used across vehicle platforms.

Risk profile

The overall risk profile is uneven. Commoditised inputs such as HRC and CRC are globally traded and relatively routable. In contrast, aluminium body sheet has a more limited supplier base, with production concentrated in a small number of mills. At the most constrained end, NdFeB magnets and SiC devices represent bottleneck inputs where geographic concentration and technological barriers significantly limit the scope for regionalisation, regardless of capital investment.

EV-specific components

Within the EV bill of materials, risk is driven by a smaller set of critical and often more concentrated inputs: lithium-ion cells (HS 8507.60); artificial graphite anode material (HS 3801.10); cobalt and nickel feedstocks (HS 7501–7506, 8105); and neodymium-iron-boron (NdFeB) permanent magnets (HS 8505.11), where China maintains a structural supply position. Silicon carbide (SiC) power devices (HS 8541), essential for inverters, represent another key dependency with limited global capacity.

Polymers and chemicals

On the polymer and chemical side, exposure is broader but generally less concentrated, including engineering plastics, EPDM, and glass fibre composites used in body, interior, and structural applications.

3.2 Tariff Scope By HS / HTSUS / CN (Indicative)

This part restates the duty regimes affecting the European automotive value chain at HS chapter and heading level. The HTSUS proclamations and the EU regulations should be consulted directly for the binding ten-digit lines and the current rate structure, both of which can change without immediate public summary.

Notation:
HS = Harmonised System (international six-digit)
HTSUS = US Harmonised Tariff Schedule
CN = EU Combined Nomenclature.

Regime	HS / HTSUS / CN scope (indicative)	Products / commodities	Reported rate (verify before use)	Stacks with
US Section 232 — Autos & light trucks	HS 8703 (passenger cars, all powertrains incl. 8703.80 BEVs); HS 8704 (light trucks); HS 8706 (chassis with engine); HS 8707 (bodies)	Finished sedans, SUVs, BEVs, PHEVs, light trucks, vans imported into the US	Reported by Reuters on 1–4 May 2026 as a move from 15% back to 25%; implementation timing and exact treatment should be verified in Federal Register / CBP guidance.; pre-existing MFN base rates apply additionally	MFN base; FX exposure
US Section 232 — Auto parts	HS 8708 (parts & accessories) plus selected lines in HS 8407, 8408, 8409, 8413, 8483, 8501, 8511, 8512, 8536, 8537, 8544 per the proclamation	Powertrain, body parts, electricals, wiring harnesses, lighting, safety systems imported as parts	Reported at 25% from May 2025 onwards; IEEPA refund opportunity reportedly applies primarily to parts, not vehicles	MFN; AD/CVD on Chinese-origin sub-components
US Section 232 — Steel & derivatives	HS Chapter 72 (iron & steel: flat-rolled 7208-7212; bars/rods 7213-7217; stainless 7218-7223; alloy 7225-7229); HS Chapter 73 (articles incl. 7318 fasteners, 7320 springs, 7325/7326 castings)	HRC, CRC, galvanised, electrical steel, automotive sheet, fasteners, springs, castings, forgings	Tier structure as summarised in trade-law commentary: 50% on products predominantly steel; 25% on derivative products substantially made of steel; Some trade-law commentary refers to transitional or capped treatment for selected categories; verify directly before use. (15% cap until 31 Dec 2027 for select machinery;) full customs value basis reported since April 2026	EU CBAM at the EU border on the same inputs; Origin and content documentation requirements are material; non-compliance may create significant duty or enforcement exposure.”
US Section 232 — Aluminium & derivatives	HS Chapter 76 (unwrought 7601; bars/plates/foil 7604-7607; tubes 7608-7609; structures 7610; other 7616)	Automotive sheet 5xxx & 6xxx series, extrusions, castings, foil for HV battery enclosures, wheels, structural	Reported tier structure parallel to steel (50% / 25% / 15% cap on select); full customs value basis reported since April 2026	EU CBAM at the EU border; melt-and-pour origin
US Section 232 — Copper	HS Chapter 74 (refined 7403; bars/rods/wire 7407-7408; tubes 7411-7412; other 7419)	Wiring harnesses (copper content), busbars, battery foil, motor windings	Reported as added to Section 232 in 2025 with tier logic similar to steel and aluminium	Stacks on parts duty for harnesses (HS 8544)

Regime	HS / HTSUS / CN scope (indicative)	Products / commodities	Reported rate (verify before use)	Stacks with
EU CVD — Chinese BEVs	CN 8703.80.10 per Implementing Regulation (EU) 2024/2754	BYD, Geely, SAIC and other Chinese BEV imports into EU	Reported range 17% (BYD) to 35.3% (SAIC) on top of 10% MFN; in force since 30 Oct 2024 for five years; price-undertaking framework reportedly published 12 Jan 2026	Indirectly affects EU OEMs via competitive pricing floor and China retaliation risk
EU CBAM (definitive regime)	CN codes per CBAM Annex I to Regulation (EU) 2023/956: cement, electricity, fertilisers, IRON & STEEL (selected Ch 72/73), ALUMINIUM (selected Ch 76), hydrogen	Embedded emissions in imported steel & aluminium feedstock used by EU plants	Financial liability from 1 Jan 2026; certificate cost tied to EU ETS price; default values reportedly penalise unverified suppliers; auto components reportedly in scope from 2028	Stacks with US Section 232 on the same metal travelling EU → US in finished article
US Section 301 + AD/CVD — battery & EV inputs	HS 8507.60 (Li-ion); HS 3801.10 (artificial graphite); HS 8505.11 (NdFeB magnets); HS 8541/8542 (semis & ICs); HS 2818 (alumina)	Battery cells, anodes (graphite), magnets, power semiconductors (SiC), specialty chemicals	Reported Section 301 stacked rates on Chinese-origin (varies by line, typically +25-100%); AD/CVD case-specific	Section 232 metals + Section 301 + AD/CVD on a single battery pack BOM
US Section 301 — Industrial overcapacity (pending)	Investigation reportedly initiated 12 Mar 2026 against EU and 15 others; HS scope to be defined	Potential extension to broader EU industrial exports including auto-adjacent goods	Public hearing reportedly scheduled 5 May 2026; outcomes may underpin new tariffs through summer 2026	Could compound with Section 232 on the same finished goods

4. Scenario Planning Through 2027

Scenario descriptions are not forecasts. They're a way to structure thinking under uncertainty. The point is not to be right on the exact outcome, but to understand how different paths would change decisions today.

4.1 Best Case: De-escalation

This scenario assumes that the tariff announcement in May turns out to be part of a negotiating cycle rather than a lasting shift.

In this scenario, the EU moves forward with implementation steps over the next weeks, and the US accepts that as sufficient progress. Tariffs ease back toward previously negotiated levels, and the tone on both sides stabilises. Tensions with China remain, but don't escalate further.

In that environment, the pressure to make immediate structural decisions reduces. Investment timelines can be paced more in line with industrial logic rather than political urgency. Suppliers get some breathing space, and the system absorbs the shock without major dislocation.

Even in this case, though, things don't go back to where they were. The direction toward more regional production remains, but it slows down and becomes more selective. Dependencies in areas like rare earths or advanced materials remain unchanged.

4.2 Base Case: Persistent Friction

This is the most realistic working assumption today. Tariffs stay elevated through 2026 and likely into 2027. There's no clean resolution, but also no full escalation. The system settles into a more complex, but relatively stable tension. In this scenario, regionalisation is the default assumption for planning, not because it's optimal, but because it's the least risky option.

For automotive companies, what initially looked temporary starts to feel structural. Cost increases are no longer a short-term issue. Localisation moves accelerate, but unevenly and often under pressure. The strain shows up first in the supplier base: tighter balance sheets, delayed investments, increasing customer concentration, and more difficult negotiations.

Over time, the limits of regionalisation become visible. As some inputs simply cannot be moved, supply chains become more complex: partially localised, but still globally dependent.

4.3 Worst Case: Escalation Cycle

This scenario assumes that the current tension doesn't stabilise, but escalates. Tariffs expand, either in scope or in level. Additional trade measures come into play, and responses from the EU and China follow. Instead of one layer of tariffs, multiple, interacting layers form across metals, vehicles, technology, and critical materials.

As the system stops adjusting smoothly and starts to fragment, companies are forced into decisions rather than choosing them. Supply chains are restructured under time pressure, not planned transition. The impact would not be evenly distributed. The weakest parts of the system, typically in the supplier base, feel it first.

However, over time, that risk moves upstream, affecting delivery reliability, cost structures, and ultimately production stability. Even aggressive localisation would not fully solve the problem, because the most critical dependencies, particularly in materials and advanced components, remain concentrated.

This is also the scenario with the highest long-term risk: large, irreversible investments made under pressure, in an environment that may shift again politically.

5. Conclusion

The current tariff escalation should be understood as a structural shift rather than a temporary disruption. The combination of US and EU trade measures reshapes the operating environment in ways that are unlikely to reverse quickly, forcing companies to make long-term decisions under short-term political uncertainty.

For the operators of European automotive supply chains, the core challenge is cost, but also irreversibility. As companies adjust production footprints and supplier structures to manage tariff exposure, they risk locking themselves into configurations that may prove suboptimal if the policy environment shifts again. At the same time, delaying these adjustments carries its own risk if current trade conditions persist.

Moving forward, the automotive industry will need to work with the parameters of this clear asymmetry: the knowledge that while preserving flexibility has a cost, being structurally misaligned is significantly harder to correct. In this environment, the most robust approach is not to optimise for a single outcome, but to maintain optionality across production, sourcing, and supplier strategies while treating regionalisation as the base-case assumption.

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