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U.S. Tariffs on Mexico and Canada: Considerations for the North American Auto Industry

The North American tariff landscape seems to be changing by the hour, adding to the ongoing uncertainty businesses have felt for the last month. To illustrate, below are the actions taken *just this week* (so far):

March 4th

- U.S. imposes 10% tariffs on imports of Canadian energy products and 25% tariffs on remaining imports from Canada.
- U.S. imposes 25% tariffs on all imports from Mexico.
- The International Emergency Economic Powers Act (IEEPA) tariffs on Chinese and Hong Kong imports are increased from 10% to 20%.
- Canada implements 25% tariffs on roughly \$30 billion worth of U.S. goods.

March 5th

- U.S. automakers General Motors, Ford and Stellantis are granted a one-month exemption from the 25% tariffs for imports from Mexico and Canada, according to the White House.

March 6th

- President Trump announces a reprieve for Mexico until April 2nd on goods that fall under the United States–Mexico–Canada Agreement (USMCA); later in the day, he does the same for Canadian goods.

Impact on the Auto Industry

Despite the cloud of confusion currently surrounding U.S. trade policy, the North American auto industry finds itself squarely in the center of what may be a rapidly developing trade war. In an already

uncertain economic environment, this week's actions only create additional strain for OEMs and suppliers that rely heavily on global supply chains.

While some experts believe the tariffs will ultimately be short-lived, exactly how long they will last and how much more severe they may become remains unknown. Should the tariffs remain in place for any meaningful length of time, businesses that take proactive steps now will be best positioned to weather the financial burden and avoid long-term instability.

Tariff Mitigation: Additional Considerations

Following the Trump administration's imposition of the initial tariffs in February, Frost Brown Todd's [Trade and Foreign Law](#) team provided guidance on general approaches to formulating a tariff-mitigation strategy ([available here](#)).

In light of the risks facing the North American automotive industry in particular, this update supplements that prior guidance, providing automakers and suppliers additional considerations when formulating a mitigation strategy.

Due to the unique nature of the industry, most companies within the automotive supply chain typically don't have the ability to pivot in agile fashion. (And even if they did, given the current frenetic state of affairs, OEMs and suppliers may understandably choose to take a wait-and-see approach.) Even so, there still may be steps you can take to provide additional levels of protection for your business, including:

IP Considerations

- When evaluating whether to relocate where goods are sourced or produced, ensure your intellectual property (IP) will remain properly protected in new countries, regions or jurisdictions.

Commercial Tactics

- If re-sourcing is impracticable, account for increased costs and performance risks in future proposals and RFQs.

- Consider stockpiling inventory for goods that appear likely to become subject to tariffs in the future.
- Check for opportunities to reduce duties by evaluating the cost of goods by line item for any that may legally be excluded (e.g., services, fees, commissions).

Logistics Strategies

- To minimize the risk of delays in transit, consider adjusting trade routes to avoid key border crossings and congested points of entry; explore water transit to bypass land border delays.

Contractual Countermeasures

- Review your contracts for a mechanism to recover increased costs caused by the tariffs and for flexibility when dealing with delivery delays.
- Include Incoterms in contracts with suppliers that place tariff responsibility on the seller, such as delivery duty paid (DDP).
- Take heed when relying on force majeure provisions, as applicability to tariffs may require express language to that effect. Be proactive with your contracts going forward and include the imposition of tariffs and changes to existing tariffs among the events constituting force majeure.

Remain Diligent

- Stay abreast of how any new tariffs and export controls may increase costs up and down the supply chain, lead to supply shortages, or otherwise create delays.
- While an exclusion application process is not currently available, one may eventually be introduced; be on the lookout for any further developments.

As we continue to learn more about these tariff-related impacts and potential further measures being taken, Frost Brown Todd's experienced attorneys stand ready to assist. Please contact the author or any member of our [Manufacturing](#) and [Mobility](#) teams for support.

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