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Auto Physical Damage

The Impact of Tariffs on the Automotive Claims Industry

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3 MIN READ

There has been a significant amount of press coverage surrounding the potential imposition of a 25 percent tariffs on automobiles and auto parts imported to the United States from countries that have previously received "most favored nation" status, incurring tariffs of only 2.5 percent. The proposed tariff increase emerged as a response from the Trump administration to increasing globalization of the auto industry. The United States Department of Commerce Secretary, Wilbur Ross, stated that auto imports, "are weakening our internal economy and may impair the national security."[1] The U.S. Commerce Department recently launched a study to investigate such national security implications, and the findings of the report will have a strong bearing on the final decision to modify the United States' existing tariff policy."[2] Recent developments point to the possibility of a renegotiated implementation of the North American Free Trade Agreement (NAFTA), that could potentially reduce the severity of changes between the U.S., Canada, and Mexico. However, preliminary talks involving imports to the U.S. from Mexico still suggest the levying of a 25 percent tariff on Mexican-made passenger vehicles and auto parts above a certain volume.[3] Though the Department of Commerce study is still ongoing, it seems imminent that the industry will be faced with the issue of tariffs in one form or another. The potential impact on automotive claims can take shape in a variety of ways. A notable concern is the prospect of increased parts prices. Parts suppliers, both OEM and aftermarket, that incur increased tariffs will almost certainly pass on any increase in costs to the end consumer. The increased tariffs will likely affect all nameplates, as even domestic OEM's rely on foreign manufacturers for a portion of their vehicles' parts, which varies greatly by model and sometimes even by trim level. Parts price increases will likely be seen in both the U.S. and Canada, as the imposition of retaliatory tariffs on imports from the United States are an expected result if a trilateral agreement between the US, Canada, and Mexico fails.[4]

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A report published by the Alliance of Automobile Manufacturers and CNBC predicts that the average price for a new import vehicle would increase by $5,800 if the proposed tariffs are enacted.[5] As new car prices surge, the demand for used cars will likely grow as consumers seek to avoid footing the bill for the newly imposed tariffs. As a result, total loss settlement values would likely increase, while rates of repair for older vehicles would also rise due to higher actual cash value thresholds. One strategy for offsetting higher parts prices is to utilize a greater percentage of recycled parts as they would not be subject to tariffs. However, this strategy may be short-lived as many recycled parts providers could see an increase in demand as an opportunity to raise prices. For an

industry already faced with a rising cost of repair due to increasing vehicle complexity, the looming threat of potential tariffs only adds to the stress being felt by executives of organizations throughout the automotive ecosystem. The fact that Canada and Mexico are actively engaged in talks with the United States to modernize NAFTA after 24 years is certainly encouraging, but we are still a long way from gaining meaningful clarity into the impact of tariffs on the automotive supply chain, aside from an almost assured increase in parts prices throughout North America.

[1]https://www.forbes.com/sites/phillevy/2018/05/24/et-tu-autos-more-national-security-tariffs/#6604a75e59b4

[2]http://canada.autonews.com/article/20180618/CANADA/180619740/assessing-the-potential-effects-of-trumps-tariffs-on-canadas-auto

[3] https://www.reuters.com/article/us-trade-nafta/canada-rejoins-nafta-talks-as-us-autos-tariff-details-emerge-idUSKCN1LD1T4

[4] http://canada.autonews.com/article/20180618/CANADA/180619740/assessing-the-potential-effects-of-trumps-tariffs-on-canadas-auto

[5] https://www.cnbc.com/2018/06/27/automakers-to-trump-tariffs-will-drive-up-auto-prices-and-cost-jobs.html

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