The Second Trump Administration:

Policy outlook and implications for the automotive sector

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Economic & Political Advisory Hub | Geostrategic Business Group I
Strategy & Transactions Automotive Hub

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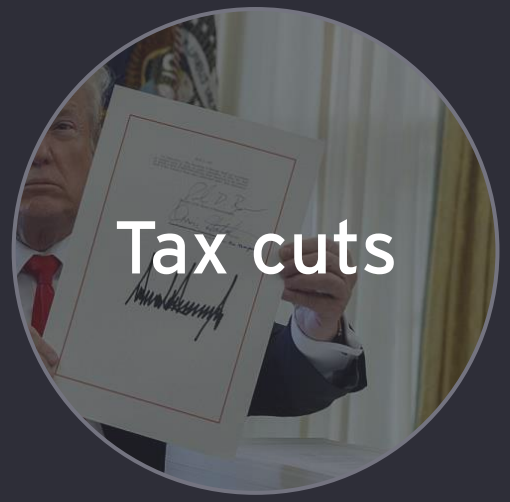
Agenda

1. Trump 2.0
2. Policy outlook and implications for the automotive sector in the US
3. Policy outlook and implications for the automotive sector in Europe in response to Trump
4. Policy outlook and implications for the automotive sector in China in response to Trump
5. Policy outlook and implications for the automotive sector in Japan in response to Trump
6. Key strategic focus areas for multinational car makers to act on in 2025
7. Summary way forward

Trump 2.0: Major topics to watch



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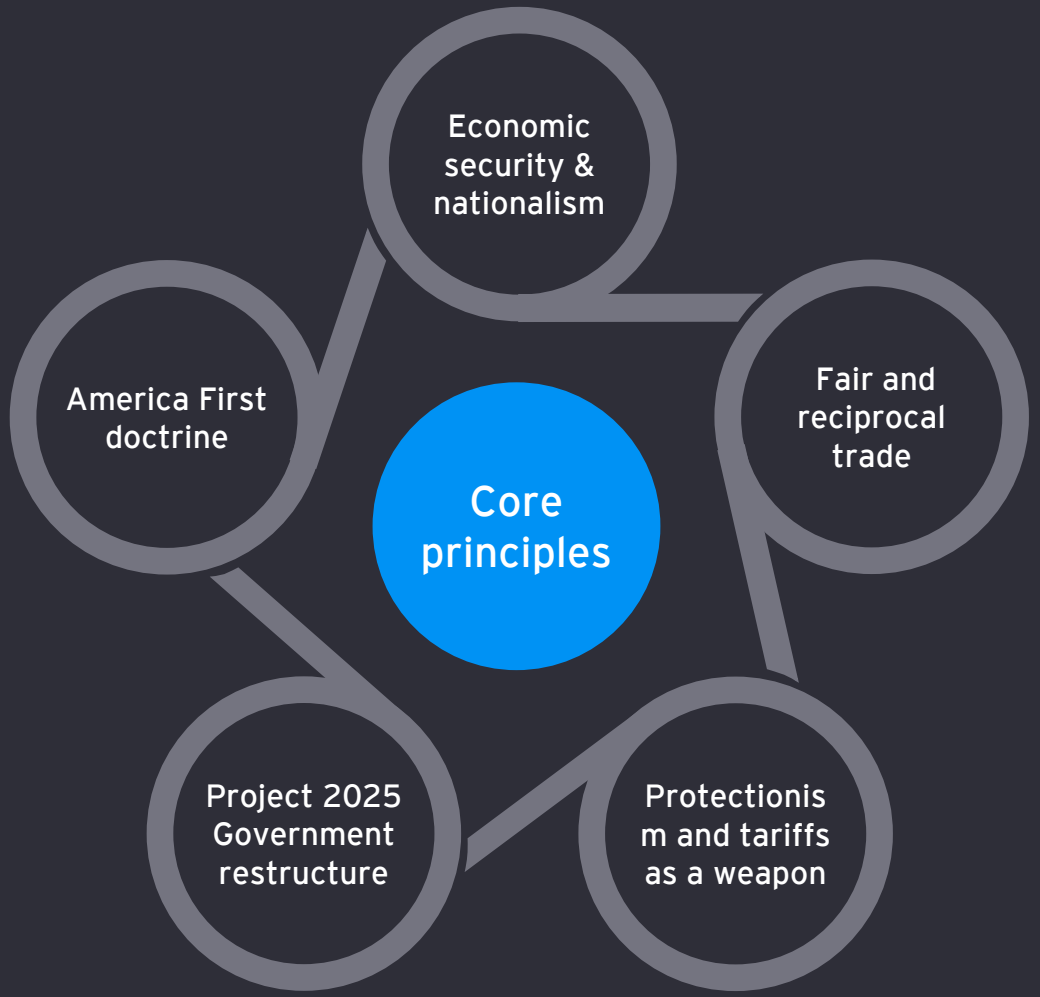
Trump 2.0: Economic policy and global trade



Trump 2.0's overall economic policy and global trade approach in a nutshell:

- His core principles will have a **profound impact** on the **global economic order** and **global alliances** with sweeping changes in **trade, emission regulations,** and **EV incentives**
- His emphasis will be on **rebalancing the** global trading system**,** the **reduction of trade deficits** (also under the premise of deliberately violating WTO rules) and the **repatriation of manufacturing** to the USA (based on stricter local content rules)
- The **imposition of** universal tariffs on most imports and matching higher tariffs imposed by other countries on US products is likely, pressuring countries into retaliation and a **tit-for-tat trade war;** some of the following tariffs are planned:
  - 10% tariffs on all foreign imports
  - 60% tariffs on Chinese imports/100%+ tariffs on Chinese vehicles
  - 200% tariffs on products manufactured abroad by US companies
- Trump is likely to withdraw from the **World Trade Organization**, the **Paris Climate Agreement** and the **Indo-Pacific Economic Framework** and to **re-negotiate USMCA** (United States-Mexico-Canada Agreement)
- A significant reduction in corporate tax (from 21% to 15%) can be expected
- The second Trump Administration will be strongly in **favor of** deregulation and will try to implement this across all key industries
- Improving supply chain resilience in strategic sectors will be essential
- **Stricter** immigration **regimes** and the **planned mass deportation** of millions of undocumented immigrants may have a major impact on the US labor market (with a key focus on certain industries) and the US economy as a whole
- The **reduction** or even abolition of the Inflation Reduction Act **credits** and the **termination of the Green New Deal** is likely

Trump 2.0: US policy stance towards China under the Biden Administration will see potential intensification during the Second Trump Administration

Under the Biden Administration multiple anti-Chinese policies, which are expected to be tightened up even further under the Second Trump Administration, have recently been enacted including:

- The curbing of US exports to 140 companies of China's semiconductor industry, including chip equipment maker Naura Technology Group
- The designation of several Chinese technology companies, including Tencent and battery maker CATL as Chinese military companies, which does not equal a ban, but allows for sanctions to be imposed by the US Treasury Department
- The enactment of the rule on connected vehicles with a focus on vehicle connectivity systems (VCS) and automated driving systems (ADS) will go into effect 17th March 2025. The rule bans Chinese hardware & software components in smart and non-smart cars. The ban does not apply exclusively to products manufactured in China, but also to those from companies with links to the People's Republic of China (the ban take effect in model year 2027 for software and model year 2030 for hardware; commercial vehicles are exempt from this rule, but this will likely change under the Second Trump Administration).

China has responded to these US policy changes by taking retaliatory measures (which also serve to improve the bargaining power vis-a-vis the Second Trump Administration) including:

- The curbing the export of technology used to extract minerals critical for the growth of the global electric vehicle (EV) industry
- The addition of the battery cathode technology to its list of controlled exports
- The addition of 28 US companies and entities, including major defense contractors Lockheed Martin and Raytheon Missiles & Defense, to its export control list for the first time
- The introduction of stricter reviews of end-usage for graphite items shipped to the U.S. and de-facto ban of the export of gallium, germanium, antimony, and superhard materials to the US

Trump 2.0: Scenario of potentially escalating global trade frictions

US under Biden towards China and Mexico

- Under Section 301 of the Trade Act of 1974, the Administration had imposed a 100% tariff on Chinese EVs in 2024
- Strong supporter of the United States-Mexico-Canada Agreement (USMCA)

China and Latin America

- Chinese car makers will likely continue to open up production sites in Mexico to establish a stronger foothold in North America
- Starting with the initial intention to serve Latin American markets out of Mexico, the focus will ultimately shift to the US

The EU vs China

- With the US market increasingly closed, Chinese steel suppliers will likely shift to Europe which will be particularly painful for the EU steel industry (including in Germany) which already suffers from high labor & energy costs and is required to shift towards high-cost green production pathways imposed by the EU Green Deal
- EU automakers face severe disruption risks due to dependencies on China for EV batteries, rare earths, semiconductors, and components amid escalating US-China tensions
- Against this backdrop, national governments as well as the EU Commission can be expected to initiate countermeasures against Chinese steel, justified by a narrative of Chinese subsidies for steel producers

The impact on emerging economies

- In response, steel prices in the EU will go up as well. Ultimately, this generates incentives for shifting at least parts of the automotive production to non-EU countries and re-import assembled vehicles or components
- Alternative locations which will initially benefit are mainly emerging markets including South Africa, Brazil or Mexico

US under Trump 2.0 vs China

- An intensifying US-China hybrid conflict will involve economic, technological, and geopolitical tensions, reshaping global trade, supply chains, and strategic alliances with impact on the automotive industry
- The US will likely keep the already-existing 100% tariff and may additionally impose 60% tariffs on all imports from China (on top of the 10% blanket tariffs on all imports) which will include steel and aluminum, both critical intermediate products in automotive supply chains
- This will likely lead to higher automotive production costs in the US
- In addition to tariffs, Trump is expected to extend bans on some Chinese software including in US vehicles, already suggested by the US Department of Commerce under Biden

US under Trump 2.0 vs EU

- The US may impose 10-20% blanket tariffs, as indicated by Trump during the US election campaign, likely followed by some degree of retaliatory tariffs or export controls by the EU
- Reaching a deal to avoid an all-out trade war will likely include aligning more with the US on China
- Achieving a deal could force the EU to extend anti-dumping tariffs beyond just EVs, potentially including 10-20% tariff on battery and battery cells

US under Trump 2.0 vs Mexico

- The US is also likely to challenge existing trade agreements like USMCA potentially leading to the imposition of tariffs on imports of vehicles and components from Mexico to the US in order to prompt US and other car makers to relocate their production and value-added chains to the US
- This could heavily impact European and other foreign OEMs who operate plants in Mexico to serve the US market

[1]Source: EY analysis of the German Economic Advisory team

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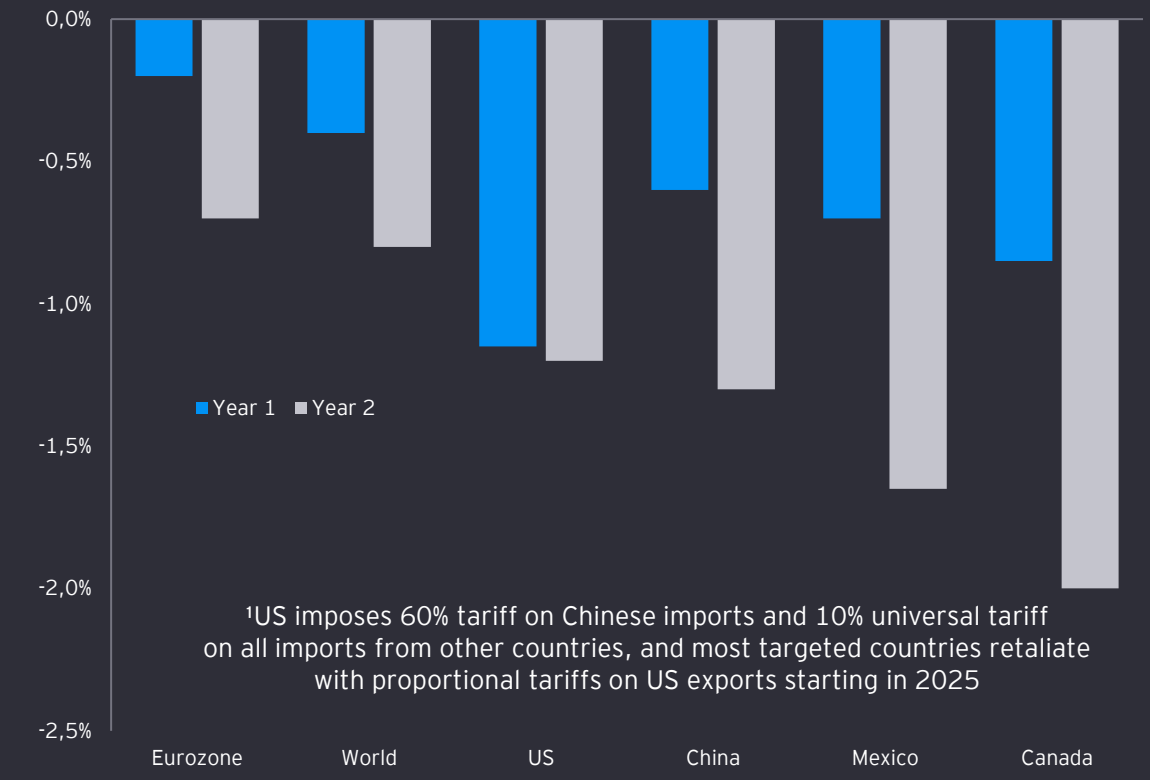
Several Trump policies are pro-growth and could boost US GDP - a trade war and geopolitical escalations could reduce global economic and business growth

Economic impact and outlook

- The impact of Trump 2.0 on US economic growth looks set to be +/- 0.5% over next couple of years, when netting off tax/regulatory upsides with trade/geopolitical downsides. Not enough to significantly alter the world economy in either direction.
- However, a scenario with full-scale trade war and further geopolitical uncertainty could reduce real US GDP by 2.5% by 2027 and real global GDP by 1.5%-2% by 2027 – this is a lower probability scenario, but one which business should incorporate into scenario plans
- A more central scenario involves deals between the US and partners, with around 1/3 of the effects from a full trade war, with US GDP growth still around 2% in 2025-27. Real global GDP would be reduced by 0.6% by 2026-27 in that scenario.
- Upside: US markets are betting on Trump and a Republican-run Congress boosting US growth driven by tax cuts (including extending the Tax Cuts and Jobs Act (TCJA)) and de-regulation, which could boost US GDP over the next 2-3 years .
- Downside: In contrast, international and European markets are down since the election, fearing tariffs and geopolitical uncertainty.
- Combining all the tariffs Trump has floated including 10-20% on all imports and 60% on China would represent a package 5-6 times greater in magnitude than the combined Biden-Trump tariffs of 2016-2024, with $500-600bn in additional levies.
- Geopolitical choices including an extreme scenario where Trump pulls the US out of NATO, could also have profound economic effects. The probability of geopolitical deals, which could have an economic upside, and geopolitical accidents, including around Iran, have both simultaneously increased.
- In the long term, the most significant economic impact of Trump 2.0 could stem from decelerated net zero and energy transitions.

Global impact of US tariff scenario[1] on real GDP growth

Ppt difference relative to baseline



[1]US imposes 60% tariff on Chinese imports and 10% universal tariff on all imports from other countries, and most targeted countries retaliate with proportional tariffs on US exports starting in 2025

Source: EY Parthenon analysis

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Policy outlook for the automotive sector in the US

Key statements

"I will formally notify Mexico and Canada to invoke the six-year renegotiation of the USMCA [and] seek strong new protections against trans-shipments so that China and other nations cannot smuggle their auto parts through Mexico."
– Donald Trump, October 2024

"I'm for electric cars, I have to be because Elon endorsed me very strongly."
- Donald Trump, August 2024

Potential policy changes for the non-EV market (selected)

1. Revocation of environmental protection & emission requirements (e.g., in terms of CAFE standards and EPA regulations for upcoming models)
2. Imposition of stricter local content requirements vis-à-vis tax credit introduction for US-based car makers (for R&D, machinery expenditure etc.)
3. Granting of tax reliefs for US non-EV buyers (e.g. full car loan interest payments deduction)
4. Renegotiation of USMCA and potential imposition/increase of tariffs on imported, foreign-made cars and cars produced by European & Asian car makers in Mexico
5. Review and (partial) amendment of the National Highway Traffic Safety Administration's (NHTSA) rulemaking in terms of impaired driving tech, pedestrian protection, and advanced driver assistance systems and autonomous vehicles (also related to the EV SAE-level 4 classification for potential approval at federal level)

Potential policy changes for the EV market (selected)*

1. Review of most pro-EV policies and repeal/rollback of the IRA subsidies and incentives for EVs and investments in green energy infrastructure including electric grids, battery storage solutions, and renewable energy (however, a complete IRA revocation seems unlikely as multiple key EV production hubs are in Republican-led states)
2. Reduction/elimination of incentives and tax concessions for EV buyers (such as the $7,500 EV tax credit)
3. Re-evaluation of EV charging grants and amendment or even revocation of the National Electric Vehicle Infrastructure (NEVI) program for EV chargers
4. California's emissions regulations (under the Clean Air Act and CARB's Advanced Clean Cars II regulations) could face legal challenges, with a potential emissions waiver revocation to set its own emissions rules
5. Amendment or even revocation of the CHIPS and Science Act (which allocates $53 billions of investment and is supposed to enhance local semiconductor production and strengthen the supply chain) including the 25% investment tax credit for semiconductor companies
6. Amendment of the Biden Administration's planned tariff rate increase on semiconductors from 25% to 50% by 2025 under the CHIPS and Science Act (instead, Trump has opted for tariffs exceeding 50%)
7. Potential federal approval for fully autonomous vehicles as opposed to state approval (in case Elon Musk exerts greater influence than expected on Trump's Second Administration's automotive policy agenda)

- As of now, it is also likely that some of those potential policy changes will be softer than expected in implementation and some EV policies might even remain

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Potential implications for the automotive sector in the US

1 Overall regulatory environment

- The regulatory environment will likely undergo significant change under Trump and will become less pro-EV and more nuanced (for non-EVs) such as less regulated for environmental & emission standards
- Revised or newly-enacted local content rules will play a key role - further scrutiny of Chinese EVs & components and scrutiny on imports from Mexico are expected
- The Trump administration's deregulatory stance could accelerate AV/ADAS development, fostering innovation, reducing compliance costs, and creating opportunities for quicker deployment

2 Investment in the US

- Both US and foreign car makers will be incentivized to ram up their US investment and re-locate (parts of) their production to the US
- Companies not making relevant strategic & operational adjustments (in terms of product lines etc.) will likely face cost & tariff increases, potentially making them less competitive globally

3 Green tech transition and subsidies

- EV subsidies are expected to be cut appreciably, but not scrapped completely
- Trump clearly favors non-EVs over EVs. While EVs are the long-term product line for most US car makers (as they already have invested large sums in EV & battery manufacturing) a hard-set anti-EV stance is unlikely, though green tech adoption in the industry will slow down

4 Production and supply chains

- Supply chain risks & costs are likely to increase due to new trade frictions with China resulting from the dependence of US car makers on Chinese components (EV batteries, semiconductors, etc.)
- Tariffs are to induce US manufacturers to adjust production to be less reliant on China and to onshore/nearshore manufacturing and jobs to the US (and benefit from Trump's proposed R&D & onshore job tax incentives)

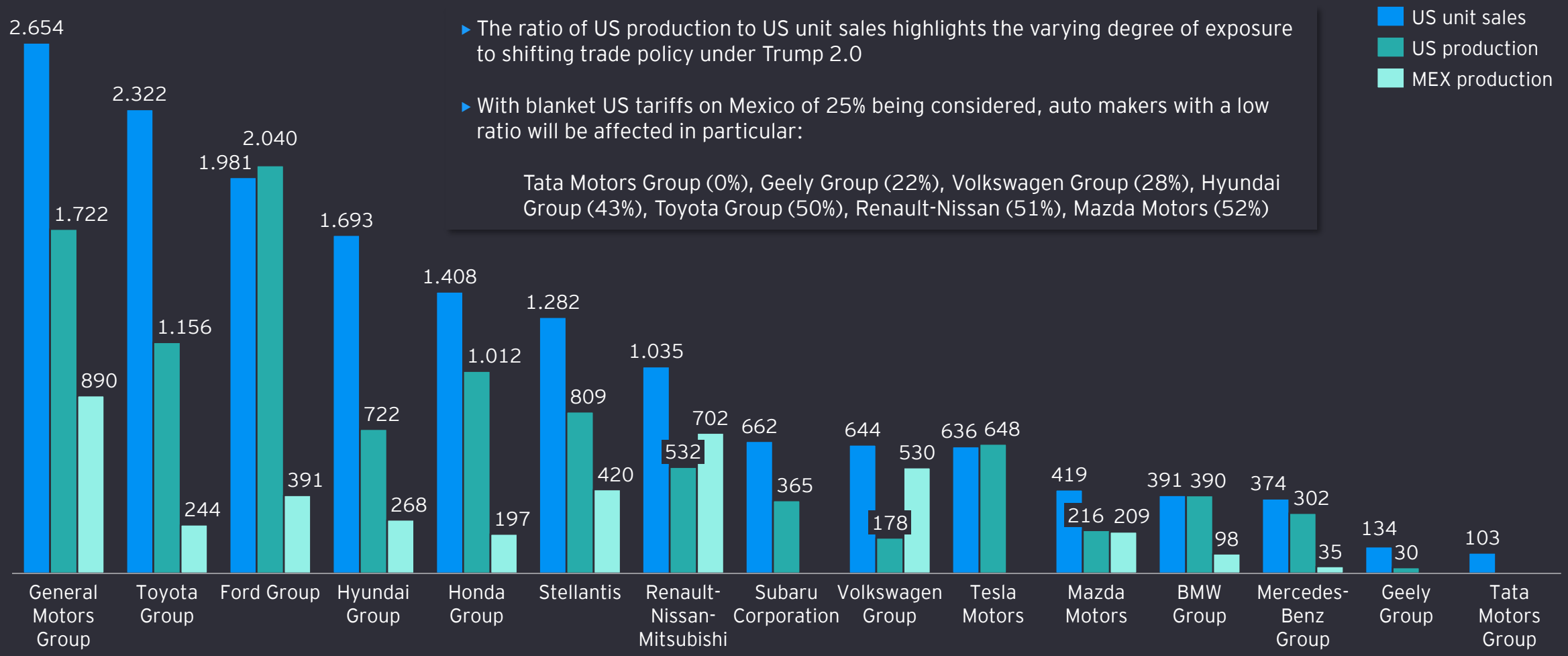
5 Global trade, tariffs and global ramifications

- The likely risk of trade confrontation and US withdrawal from trade agreements, international treaties and international institutions will make business environments in some countries more uncertain and less profitable for US car makers
- A high-tariff approach towards imported, foreign-made EV & non-EV cars could lead to higher prices for foreign cars in the US, making them less competitive vis-à-vis US car makers

6 Financials, private equity and M&A

- M&A deals and transactions in the industry in the US may become more likely due to favorable business environments based on deregulation, less stringent antitrust enforcement and a focus on manufacturing & job onshoring
- Reduced governmental scrutiny over private equity transactions may also benefit US companies in the sector

Comparison of 2024 US market sales compared to US / MEX production output illustrated the different exposures to potential impacts on the various trade routes



- The ratio of US production to US unit sales highlights the varying degree of exposure to shifting trade policy under Trump 2.0
- With blanket US tariffs on Mexico of 25% being considered, auto makers with a low ratio will be affected in particular:

  Tata Motors Group (0%), Geely Group (22%), Volkswagen Group (28%), Hyundai Group (43%), Toyota Group (50%), Renault-Nissan (51%), Mazda Motors (52%)

Source: LMC (Global Data) 4Q24 HEVF, IHS Alt. Propulsion 4Q24; Compas JV equally allocated to Nissan and Mercedes-Benz

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Policy outlook for the automotive sector in Europe in response to Trump

Key statements

"Here is the deal that I will be offering to every major company and manufacturer on Earth – I will give you the lowest taxes, the lowest energy costs, the lowest regulatory burden. And free access to the best and biggest market on the planet. But only if you make your product here in America. It all goes away if you don't make your product here. And hire American workers for the job. If you don't make your product here, then you will have to pay a tariff, a very substantial tariff."

- Donald Trump, October 2024

"I want German car companies to become American car companies. I want them to build their plants here."

- Donald Trump, September 2024

Potential policy changes for the non-EV market (selected)*

1. Introduction of retaliatory tariffs on selected US imports in key US strategic sectors if tariffs are imposed by the US
2. Forging of new/accelerated ratification of pending trade agreements with other nations/regional blocs (such as the EU-Mercosur Trade Agreement)
3. Accelerated reduction of critical supply chain dependencies regarding China to mitigate the impact of US tariffs/sanctions against Chinese firms
4. Regulatory overhaul at European and national levels and expansion of already-existing regulatory frameworks (e.g., Green Deal Industrial Plan or European Climate Law) to mitigate Europe's location disadvantages and strengthen sectors of strategic interest
5. Likely revision and amendment of the EU ban on selling CO2-emitting cars beyond 2035 as many of the parties now represented in the European Parliament called to revise the law and revive the internal combustion engine (also potentially leading to amendments of selected environmental protection regulations if the ban will be repealed)
6. Promoting policies that allow for a deeper internal European market integration, also focusing on non-EVs and EVs
7. Promoting policies that allow for better international technical harmonization to increase Europe's competitiveness

Potential policy changes for the EV market (selected)*

1. Introduction of new incentives for local EV manufacturers & suppliers and increase of incentives for EV buyers for accelerated EV adoption in the medium term
2. Introduction of retaliatory tariffs targeting key US players in the European EV market if tariffs are imposed by the US (subsequently, the EU will also likely revise its tariff regimes towards Chinese companies if China will steer more exports to the EU)
3. Review and adjustment of product lines designed to serve the US market and solely built in Europe (with now a stronger focus on hybrid vehicles)
4. Further strengthening of the European Battery Alliance to decrease Europe's dependence on China
5. Strengthening of bilateral regulatory dialogues to help ensure coherent regulations between EU and non-EU countries (with a key focus on EVs)

* Most policy responses will require a concerted action between the EU and UK

Potential implications for the automotive sector in Europe

1 Overall regulatory environment

- The European regulatory environment remains uncertain after the EU Parliamentary Elections in 2024 and requires stronger alignment, also with UK, to reduce regulatory fragmentation
- European & British markets are expected to double down on stringent environmental commitments nevertheless, with the potential of European & British car makers charge ahead in EV adoption if the US pulls back from the global EV market

2 Investment in the US and at home

- European car makers have already made extensive EV investment under the IRA and will further be incentivized to ramp up their US investment mostly for non-EVs (which might not improve their competitiveness in the US, even with a tax credit, though)
- EU-based production becomes less competitive and global sales shares will further decline for most European car makers if US tariffs will be imposed, reducing their home market investments further

3 Green tech transition and subsidies

- As of now, EU and UK appear to be committed to their net-zero strategies and will continue offering EV incentives (which might be reduced, though)
- However, the situation for the automotive industry, especially in Germany, is difficult, as most of the largest car makers have been recording a sharp profit & market valuations decline near record lows (also due to drops in EV demand and cheaper Chinese competition), slowing down EV adoption

4 Production and supply chains

- Production capacity of European car makers in the US is not sufficient to meet all demand in the country, but might be sufficient to be exempt from the tariffs
- European & British automotive markets, particularly vulnerable to supply chain disruptions, could see costs spike, especially if tariffs make Chinese-made components unaffordable
- US imports from near-shored production sites in Mexico are subject to potential 200% tariffs

5 Global trade, tariffs and global ramifications

- In particular, German car makers are likely to further invest in China to stay competitive and protect their EV strategies
- Changing US regulatory frameworks will split the global regulatory landscape and create complications for non-US car makers working across regions
- European suppliers exporting parts to the US will likely face a significant reduction in profitability as a result of new tariffs, as US-based importers may decide to switch to local suppliers

6 Financials, private equity and M&A

- Cross-border M&A deals and transactions become increasingly difficult due to stricter US protection of local companies
- If the European structural location disadvantages are not mitigated or eliminated in the near future, the numbers of mergers and acquisitions within the automotive industry including suppliers can appreciably increase

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Policy outlook for the automotive sector in China in response to Trump

Key statements

"If I don't win, you will have no auto industry within two to three. You will not have any manufacturing plants. China is going to take over all of them because of the electric car."
- Donald Trump, September 2024

"Right now, as we speak, large factories… are being built across the border in Mexico by China. Those plants will be built in the United States and our people are going to man those plants."
- Donald Trump, July 2024

Potential policy changes for the non-EV market (selected)

1. Retaliatory tariffs on US imports that is either reciprocal in value/proportion or in politically influential industries (e.g. agriculture), if USA imposes new or increases already-existing tariffs
2. Stronger enforcement of anti-sanction, trade & FDI legislation particularly related to foreign trade, export control, anti-foreign sanctions, national security, cyber security, corporate espionage, data localization & residency and inbound/outbound data transfer to preempt US and European actions directly affecting foreign companies operating in China
3. Lowering of import duties for non-US vehicles and auto parts to increase market attractiveness
4. Strengthening already-existing trade & investment partnerships with Hungary (as a hub for direct EU market access) and selected Asian, African and Latin American countries to mitigate US & European tariffs by enabling Chinese car makers to open up localized production sites
5. Regulatory relaxation to specifically attract non-US FDI (through less restrictions on market access, operational complexity, eligibility to government incentives etc.) with a key focus on German & Japanese car makers already having made huge investments in China
6. Targeted FDI liberalization and tax incentives in the non-EV sector to prompt European and Japanese companies to ramp up their investment in China vis-à-vis a potentially less attractive US market
7. Negotiations or amendment of trade agreements to tap new markets for Chinese EVs and non-EVs or increase Chinese market shares (such as CAI, DEPA, SAARC, CPTPP and FTAAP)

Potential policy changes for the EV market (selected)

1. Further amendment of the restrictions to form joint ventures for the EV sector for foreign car makers (so far, Tesla is the only foreign company that operates a Wholly Foreign Owned Entity gigafactory in China)
2. Potential imposition of retaliatory actions/tariffs in the EV sector and taking actions targeting operations of US EV companies (such as delaying approvals and licenses, setting new statutory provisions etc.)
3. Shifting of Chinese FDI to other growth markets outside North America and Europe with a key focus on selected Latin American, African and Asian countries to bypass tariff imposition
4. Review and potential adjustment of governmental subsidies in the EV sector to further drive innovation and maximize competitive advantages

Potential implications for the automotive sector in China

1 Overall regulatory environment

- The overall regulatory environment remains complex, but Chinese authorities are considering further relaxation of market entry & operational barriers to attract FDI from non-US countries to offset US tariff risks (but which can also shift quickly in the other direction)
- Revised and newly-enacted local content rules will play a key role in this

2 Investment in the US and at home

- Trump is open to attract Chinese FDI if Chinese car makers produce their cars for a 100% in the US and Chinese EV companies have already made plans to invest billions of dollars to build facilities that produce battery parts
- To stimulate automobile sales, the government has implemented several policy adjustments – a trend which will continue and back by a potential increase of European and Japanese FDI in China

3 Green tech transition and subsidies

- Chinese EV subsidies provide a strong financial support for promoting the growth of the automobile market in 2024 and beyond – independent of the actual US policy-making in that sector
- Green technology adoption in China is not expected to slow down in the next years to come

4 Production and supply chains

- Chinese car makers have been near-shoring parts of their production sites to Mexico to take advantage of USMCA regulations and to avoid the already imposed 100% tariffs
- China's car industry is largely independent of the US market, but Chinese car part producers exporting to the US will feel the pinch of any escalating trade war
- In case of a trade war, China will likely leverage its influence in critical raw materials (esp. against USA companies), disrupting production stability

5 Global trade, tariffs and global ramifications

- Chinese car makers are already subject to 100% tariffs, significantly limiting their appeal in the US
- If the USMCA agreement will be re-negotiated Chinese investors are more likely to reconsider their investments from Mexico
- If Chinese car makers will effectively face greater barriers to the US, this may steer more exports to Europe and other markets (with the likely attempt to sell cars at very low prices) and lead to greater investments in Latin America, Africa and Asia

6 Financials, private equity and M&A

- Cross-border M&A deals and transactions between Chinese and US companies become less likely given changing regulatory requirements and closer governmental scrutiny
- The same applies to international private equity transactions in the sector

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Policy outlook for the automotive sector in Japan in response to Trump

Key statements

"The 34-year high of the dollar to the Japanese yen is a disaster."
-- Donald Trump, April 2024

"We want free and reciprocal trade, but right now our trade with Japan is not free and it's not reciprocal."
- Donald Trump, November 2017*

* The second Trump quote is even more relevant today as the trade deficit with Japan has grown since his first term

Potential policy changes for the non-EV market (selected)

1. Limited use of retaliatory tariffs in case USA will impose tariffs on Japanese car makers
2. Potential further depreciation of the Yen to strengthen Japanese export competitiveness
3. Increase of Japanese FDI in the US in case USA will impose new tariffs on Japanese car makers
4. Potential governmental incentivizing to increase domestic non-EV demand
5. Targeted FDI liberalization and tax incentives in the non-EV sector to prompt foreign companies already having a strong footprint in Japan to ramp up their investment vis-à-vis a potentially less attractive US market
6. Further strengthening of governmental promotion of onshoring and near-shoring strategies to diversify supply chains and reduce economic dependence on China, including shifting productions to Southeast Asia, India, and Bangladesh, with substantial subsidies being allocated to strategic industries (including semiconductors)
7. Stronger focus on new trade agreements and regional integration initiatives in Southeast & East Asia and the Pacific, also without US participation, and targeted use of economic diplomacy tools to mitigate potential negative US tariff impacts and to open up new markets

Potential policy changes for the EV market (selected)

1. Pursuit of a governmental hybrid-first policy to aid Japanese car makers
2. Increase of subsidies for solid-state batteries to maximize competitive advantages, but other subsidies are subject to review
3. Government-back diversion of hybrid-related Japanese FDI to alternative markets including China (despite continued struggles)
4. Review and potential phase-out of governmental support for EV adoption (i.e. Subsidies to Promote the Introduction of Clean Energy Vehicles) potentially further slowing down national EV adoption as Japanese car makers have already been slow to invest in all-electric models compared to hybrid vehicles
5. Potential pursuit of protectionist measures to protect local EV manufacturing and to avoid a further drop in demand for domestic brands

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Potential implications for the automotive sector in Japan

1 Overall regulatory environment

- The regulatory environment in Japan remains stable with few regulations expected to change in the EV & hybrid car sector in the near term
- Overall FDI in the automotive sector has only gradually increased in 2024, but the government has promised to boost overall FDI by 50% by 2030 also through regulatory change which will have a direct impact on the automotive sector

2 Investment in the US and at home

- Japan is the largest foreign car maker in the US market and Japanese car makers are not expected to overhaul their current strategies in case EV incentives will be cut as their investment into EVs is considered long-term. They are expected to even increase their US FDI to reduce the impact of a changing regulatory environment also on their US-based & foreign suppliers (whereas investment in Japan will likely stagnate)

3 Green tech transition and subsidies

- EV investments in Japan remain at a low level, so do governmental subsidies leading to a stagnation in green tech adoption
- The EV market is dominated by the sale of hybrids, with a market share of 59% in Q2 '24
- Governmental subsidies for hybrid cars may increase in the near/medium term depending on US future policy-making in the EV sector

4 Production and supply chains

- Toyota and Honda try to avoid major operational shifts regarding key markets through which the US is served, however, Mexico is a key hub and Japanese car makers would be heavily affected by a 200% tariff on vehicles manufactured in Mexico, so shifting production away from Mexico is very likely in the medium term if US tariffs become permanent
- Also to reduce the dependency on Chinese natural resource supplies, Japanese car makers may increase their FDI in China

5 Global trade, tariffs and global ramifications

- Designated a key market for Japanese car makers, China will play an increasingly important role in terms of shifting productions and investments to stay competitive and protect their transition strategies
- Japan will likely strengthen its cooperation with ASEAN, other members of the Group of Seven and with Asia-Pacific nations, including Australia, India and South Korea to counter US unilateralism

6 Financials, private equity and M&A

- Cross-border M&A deals and transactions become increasingly difficult due to stricter US protection of local companies
- If the Japanese structural location disadvantages, particularly in the EV sector, are not mitigated or eliminated in the near future, the numbers of mergers and acquisitions within the automotive industry including suppliers can increase

Key strategic focus areas for multinational car makers to act on in 2025

Manufacturing footprint strategy

- Production strategizing (opening, expansion, downsizing, closure and shifting) based on determining company-specific trade flows, exposure to all relevant markets (i.e. Mexico, USA et al.) and tracking and quickly responding to policy shifts requiring flexible capacity output adjustments in one or **more markets**
- Value-added chain risk profiling
- Increase of local content in one's US production/local for local or regional for regional production etc.

Product & Portfolio strategy

- Existing product line review & adjustments tailored to each country market (e.g. revisit models, platform line-up, ICE extension, flexibilization towards multi-energy platforms etc.)
- Development of new business models including services which are less exposed to tariffs and which seize opportunities around ADAS/AV in the US market
- Establishment of new local partnerships in the target market etc.

Regulatory & public policy response strategy in all relevant markets

- Monitoring, analysis and managing of regulatory & policy changes (also with a key focus on industrial policies) and quantifying potential risks
- Conducting feasibility analyses regarding the need for substitution of selected production components
- Managing potential market access restrictions and changing local content requirements etc.

Sourcing strategy

- Supply chain risk profiling & re-configuration with reviewing exposures on Chinese suppliers (considering the need to decouple) and US partners (considering potential USD FX risks)
- Implementation of hedging strategies
- Multiple vendor strategizing (US, China, EU/RoW)
- Partner due diligence
- Mitigating the increasing risk of the geopoliticalization of natural resources of production-critical components etc.

Technology strategy

- Increasing need to consider US-China trade war impacts and dependency & exposure risks in terms of China and other markets
- Increasing need to consider US national security parameters (targeted at China) regarding the use of critical technology, affecting country-specific production which will likely prompt China to take retaliatory steps (also in terms of Chinese national security) --> medium- to long-term need to be Chinese-free for the US market
- Consistent licensing, IP & critical asset protection review (against corporate espionage) etc.

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SUMMARY

Policy outlook and implications for the automotive sector in the US and abroad

Potential US policy changes and their implications

- Second Trump Administration will pursue an "America First" policy focusing on **strengthening US economic security** and the **weaponization of trade** (mostly by threatening the increase of/imposition of new tariffs, additional organizational bans, bans on cars that include Chinese components etc.)
- Main strategic goals regarding the automotive sector:
  - Protect US companies from foreign competition on the one hand and to
  - Prompt foreign car makers to significantly increase their US investment (also further aided by new governmental incentives)
  - Reduce supply chain dependencies (mostly related to China)
- Turn to "anti-EV" stance very likely:
  - Key policy regimes providing significant EV subsidies and tax concessions for EV buyers and promoting EV production & green technology adoption in the US are likely to be amended (such as the IRA or the CHIPS and Science Act) or revoked (such as the National Electric Vehicle Infrastructure program) – though EV criticism softened over time
  - Policy-making will likely shift in favor of non-EV production and the increase in national demand (the latter will be achieved providing potential new tax credits and other incentives for non-EV buyers)
- Foreign carmakers producing in Mexico and currently exporting under the USMCA Free Trade Agreement will likely see significant changes due to the imposition of potential 200% tariffs on foreign-made cars (mostly affecting Japanese, German and US car makers)
- European, Chinese and Japanese governmental EV and non-EV policy responses will vary, but will commonly aim at mitigating the impact of US tariffs, in particular

Immediate action attention points for SA business

As trade frictions between the US and other countries (most notably European countries and China) become more likely and EV and non-EV policy changes in the US might be significant, both US and non-US car makers should especially prepare for those shifts by (amongst others):

1. Consistently monitoring policy changes across all relevant legislations (USA and beyond) and assess their short-, medium- and long-term impact while implementing comprehensive risk management strategies to mitigate emerging risks
2. Reviewing and potentially adjusting country market, medium- and long-term global production & product line strategies for the US and beyond and engaging in scenario planning (worst, best and likeliest cases)
3. Reviewing overall business relationships with China and potential dependency risks in addition to adjusting supply chains to reduce dependencies particularly on critical Chinese EV components (also to mitigate the impact of any potential US-China trade war)
4. Pre-empting potential tariff impacts with expanded localized operations, partnerships, acquisitions and sourcing networks
5. Engaging in targeted country risk analysis & evaluation to anticipate potential risks, disruptions and windows of opportunity relevant to one's operations in all key markets (US and beyond)
6. Building and strengthening alliances and networks based on revised government affairs, corporate diplomacy & thought leadership strategies to increase room for maneuver and governmental outreach

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