The Trump Tariffs and How They Are Affecting Auto Care in the U.S.

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The topic of President Trump's tariffs have become a focal point for anyone running a business in the U.S. This is especially true if your business is directly involved in servicing cars and trucks, as back in May 2018, the Commerce Department announced it was launching a Section 232 investigation on passenger vehicles and automotive parts. Their rationale for this investigation was "whether such imports are weakening our internal economy and may impair national security."

As tariffs have been put in place, they are now directly affecting businesses and their bottom line. Consumers are being impacted in the pocketbook and wallet. Equally troubling is that tariffs create winners, as well as losers. Some industries benefit, like steel and aluminum producers. Others are discovering, at least in the short-term, they are one of the losers. The challenge becomes, what to do next? Do they pass costs on to customers? And what kind of impact will the tariffs have on their supply chains?

Tariffs aren't a new thing. They are as old as America. In fact, the first Congress addressed tariffs back in 1789 (after creating the oaths of office with their first act). This led to the enactment of the Tariff Act of 1789. Sentiment for tariffs among the Founders wasn't universal, however. And in much the same manner, President Trump's recent round of tariffs and trade policies have sparked debate among members of Congress and business leaders.

If you recall during the run-up to the presidential election, then-candidate Trump repeatedly made claims blue-collar workers in the United States were being taken advantage of by its foreign trading partners. He placed the blame for lost jobs in manufacturing on deepening trade deficits. These were "bad trade deals" in Mr. Trump's way of viewing trade. But he wasn't the only candidate sounding the alarm on trade, either. Bernie Sanders, a Democrat, also called past U.S. trade agreements "disastrous." Democratic nominee, Hillary Clinton, who served as President Obama's secretary of state and once endorsed the Trans-Pacific Partnership (TPP), was forced to backtrack and ended up coming out against TPP in her failed presidential run.

Since assuming office, the president has been putting in place his version of economic nationalism. He told Americans in his inaugural address that trade would be important for him.

"We must protect our borders from the ravages of other countries making our products, stealing our companies and destroying our jobs," he said.

Then, a few days later, he withdrew the U.S. from the TPP and proclaimed that he would renegotiate the North American Free Trade Agreement (NAFTA). Additionally, he threatened to impose a special tax on any company in the U.S. that moved factories abroad. The last president who spoke this forcefully about the need for "protection" against foreign competition was Herbert Hoover, more than 80 years ago.

Automotive parts makers — they take the raw steel (and aluminum) manufactured in mills and forge them into parts for autos — are likely to end up being on the losing side of the president's trade policies. Downstream steel and aluminum industries (which includes automotive afterparts manufacturers and wholesalers), where 97 percent of jobs reside, will potentially experience job losses. This may be similar in effect to what happened in 2002, when President George W. Bush enacted tariffs on steel and 200,000 jobs were lost, according to research conducted by The Trade Partnership, a consulting firm working with downstream steel industries. According to their research, for every job saved at a metal smelter due to the Trump tariffs, five more workers potentially could be joining the ranks of the unemployed. At the moment though, no one knows.

Because auto parts make up a significant share of the $200 billion represented by Chinese products now under tariffs, both the quick lube and auto care industries have been following the tariff news cycle with particular interest since the end of September. That was when the Trump administration imposed Section 301 (designed to fight Chinese intellectual property theft)on Chinese-sourced auto parts. That initial 10-percent duty on the third round of tariffs imposed by the administration had been slated to increase to 25 percent on January 1. Negotiations between the administration and China in early December resulted in a 90-day moratorium on this increase.

Speaking with Aaron Lowe, senior vice president for Regulatory and Government Affairs with the Auto Care Association, he indicated the tenuous nature of tariffs and future effects on the auto care industry, as well as for auto manufacturers.

Lowe spoke about the issue of tariffs being “extremely complex.”

“We didn’t think we’d be so deeply involved in this issue back at the start of the year,” he said. “Steel prices have been extremely volatile and are likely to continue to be. Raw material costs (for steel and aluminum) are going to be impacted by the 25-percent tariff imposed on steel as part of the Section 232 investigation on imports of steel and aluminum that was put in place in March. Anything imported from China (like brake pads, air conditioning parts or wipers) are subject to the Section 301 (tariff) duties.”

Lowe mentioned that auto care industry leaders are concerned this could result in delays in maintenance.

“We know that drivers already defer maintenance for a variety of reasons — some of them quite ‘crazy.’ With cost increases, it’s quite likely that it will continue to happen and could ultimately become a safety issue,” Lowe said. “Consumers are certainly one of the victims of these tariffs.”

Lowe said it’s hard for auto parts suppliers to make decisions not knowing what the costs might be three and six months down the road. It certainly affects planning.

“Manufacturers are already seeing product surcharges tacked onto steel imported from China and other tariff-affected countries. This ends up being passed down the line,” he said.

Lowe emphasized, “While we don’t support the overall tariffs, we do recognize the need to address the intellectual property issues with China. This could be the silver lining out of this trade back-and-forth.”

The tariff issue has drawn together a massive coalition of groups from across the entire auto industry.

“This is one of the first times we’ve had this kind of broad-based support on an issue between both auto manufacturers and auto aftermarket producers,” Lowe said.

Currently, decisions are still being made on what countries will be added to the list of tariffs, as well as specific products. This makes it difficult to put a concrete plan in place for people like Lowe and others working on the government and regulatory side of the industry. It also continues to cause anxiety for owner/operators and others, including consumers.

“We’re still trying to put a plan in place, as we attempt to sort this all out,” Lowe said. “The moratorium felt shaky from the get-go. However, I’ve learned to hold off and not make pronouncements until we’re certain what direction this will all go.”

Lowe urged people to write letters and communicate with their member of Congress on this.

“They’re pretty receptive to hearing from their constituents, and this is an effective way to let them know how this is affecting people in their districts,” Lowe said.

For now, Lowe indicated that industry leaders and others are taking a wait-and-see approach to what happens at the end of the moratorium.