Israel Vehicle Importers Association

Major Automotive Global Trends of February 2025

I-via

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1. USA

The US is aligning for the imposition of tariffs on goods imported from Canada and Mexico

At the beginning of February, shortly after entering into office, President Trump announced an additional 25% tariff on goods imported from Canada and Mexico and 10% on goods imported from China.

The implementation of the tariffs was finally postponed to March to allow for negotiations. Still, the American auto industry had already begun to prepare accordingly in February because the imposition of tariffs on neighboring countries would significantly damage the existing supply chain.

The additional tariffs are described by the Trump administration as dealing with an emergency situation resulting from immigration and the importation of hard drugs into the US, and they are not imposed only on vehicles and vehicle parts but also on energy resources, raw materials, and more. The stated goal is to exert general economic pressure on the governments of neighboring countries.

In response, the Canadian government threatened to impose 25% tariffs on $155 billion worth of goods imported from the US immediately and on $125 billion in a second phase when tariffs would also be imposed on EVs imported from the US – a hint to Trump's partner Elon Musk's Tesla. Canada also threatened to take legal action against the imposition of the American tariffs, should they indeed be imposed.

The US import tariffs were originally scheduled to take effect on February 4, while tariffs on oil, gas, and electricity from Canada were set to take effect two weeks later. However, after talks between the US administration, the Mexican president and the Canadian prime minister, Trump ultimately agreed to delay the tariffs until March.

The additional tariffs on Chinese products took effect immediately and led to countermeasures by China, including imposing a 15% tariff on certain types of coal and liquefied natural gas imported from the US.

Tariffs on imports from Mexico and Canada are particularly problematic for the US auto industry because many US automakers currently manufacture dozens of vehicle models and tens of thousands of parts for the US auto industry in both countries. Until now, the neighbors to the north and south have benefited from the NAFTA agreement, which granted exemption from tariffs.

The extent of the damage to the industry is still unclear and is expected to vary from manufacturer to manufacturer. Some US manufacturers have already prepared for the move and imported large stocks of vehicles from Canada and Mexico before the tariffs go into effect. However, all manufacturers will likely be hurt by the Canadian government's decision to impose tariffs on US-made cars and trucks, including EVs.

Meanwhile, the US auto industry is currently examining how to deal with the Republican proposal from February to impose a $1,000 tax on every new EV sold in the US to "Fund road maintenance in the US”. If implemented, the tax would particularly hurt foreign automakers that export vehicles to the US.

The US administration freezes federal funding for charging infrastructure and cancels the governmental electric fleet

One of the last moves taken by the outgoing Biden administration was to free up hundreds of millions of dollars from plans to build a “Coast-to-coast” public EV charging network. However, this appears to be one of the last funding moves for the charging industry in the coming years.

In February, the Trump administration announced that it was immediately halting federal funding for charging infrastructure. In a temporary memo issued by the US Federal Highway Administration (FHWA), the administration ordered state governors in the US to immediately halt funding for the previous administration's NEVI program to expand charging infrastructure in the US.

As a result, funding for all entities involved in the projects was immediately suspended until final guidance was received. The order came from President Trump's office as part of his stated policy. In the memo, the administration notes that the order was issued "In accordance with current policies and priorities of the US Department of Transportation".

However, in the US, it is questioned whether the FHWA has the authority to stop the NEVI program through a temporary memorandum. Such a stop would require a legislative change in Congress, and even then it would probably be decided by the US legal system. Despite this, commentators estimate that the Trump administration will succeed in creating chaos in the charging industry and slow down its progress.

It should be noted that as part of the NEVI program, state governments must send their plans to the FHWA every year and explain in detail how they intend to use the funds. The memorandum allows the FHWA to delay approval. It should also be noted that in addition to the NEVI, there are additional and targeted funding programs for charging infrastructure - such as the CFI - which in the meantime continue unchanged.

In the meantime, President Trump ordered in February to sell the entire EV fleet that serves the federal government (several tens of thousands of vehicles). At the same time, an order was issued to disable the active charging stations at government facilities. It should be noted that Tesla is not expected to be affected by the move because its presence in the federal fleet is zero.

The vehicle parts industry is concerned by the imposition of tariffs by the US and its neighbors

The intention of the Trump administration to impose tariffs on its NAFTA partners also affects the large manufacturers and suppliers of auto parts that have production hubs in the US and neighboring countries.

During February, AUTOLIV, the largest supplier of seat belts and airbags to the auto industry, warned that the planned tariff imposition would hurt the sector severely and that some of the providers will not survive, which will in turn hurt the entire auto industry supply chain.

AUTOLIV’s CFO told the media that AUTOLIV itself would not be able to absorb the additional costs of the US tariffs and that there is a need for swift decisions on how to deal with them. According to him: "Ultimately, our customers and end consumers will have to bear these additional costs across the entire value chain".

Analysts estimate that some automotive suppliers may even go bankrupt as a result. They estimate that some companies in the automotive supply chain are already in a problematic financial situation and some may not be able to meet their short-term financial obligations and will encounter difficulties in raising capital. The analysts also estimate that the profits of the largest suppliers in the US may drop by 8-15% as a result of the tariffs.

Another parts supplier, Canadian Linamar, said in February that: “Parts suppliers will not be able to transfer the US tariff costs to the end consumers”. The company claims that some of the parts it sells cross the border up to seven times before they are installed in vehicles. “No supplier can bear these costs”, said the company’s CEO, and added that these costs can not be transferred to the customers because no one would buy a car with such a price increase.

A study by the consulting firm TD Economics estimates that tariffs in the US will increase the retail prices of new vehicles in the country by up to about $3,000 per vehicle. As a result, there will be a decrease of about one million units in new vehicle sales in 2025.

2. Europe

The EU is mulling new regulations for PHEV after 2035

At the end of January, the EU began a "Strategic dialogue on the future of the automotive industry", and European commentators believe that these are the first signs of the Commission's flexibility on the issue of ICE vehicles. This is in light of the relentless pressure from automotive industry lobby groups to cancel the imposition of fines for vehicle manufacturers' deviations from the average CO2 emission ceiling and perhaps even cancel/soften the EU's decision to stop marketing ICE vehicles after 2035.

In February, the German press reported that representatives in the EU did not rule out the possibility that the selling of PHEV vehicles would be allowed in the EU even after 2035. The Commission even indirectly confirmed this in a recently published EU strategy document.

According to that document, the Commission wants to "Examine the demonstration of flexibility to ensure that our industry remains competitive without lowering the overall ambition of the 2025 emissions targets". It also states that: "Achieving climate neutrality for cars by 2035 will require the adoption of a technology-neutral approach, which would require regulatory reform in relation to e-fuels".

As part of the mentioned strategic dialogue, Commission President Ursula Gertrud von der Leyen announced that she would work quickly to formulate an action plan to support the automotive industry and that the plan would be presented as early as early March.

However, industry lobbyists are not satisfied with this and aim to also relax the ban on the sale of ICE in 2035. Among other things, a lobbyist for one of the European car manufacturers was quoted in the media saying: "Future regulation must be open to new technologies and allow the sale of environmentally friendly products such as hybrid drives".

Europeans estimate that the scenarios currently being discussed in Brussels range from postponing CO_2 fines, offsetting them against average emission reductions in the coming years, and even softening the ban on ICE vehicles from 2035. On the other hand, "Green" bodies in Europe claim that if such decisions are made, this will be bad news for European consumers because manufacturers will be able to continue charging high prices for EVs

The European People's Party, EPP (The largest lobby group in the EU) also expressed optimism in February about the prospect of softening the Commission's position on the 2025 emissions quotas. Senior figures in the group claim that the action plans currently being considered include a legislative amendment that would allow for establishing an "Emissions credit" mechanism that would give car manufacturers greater flexibility in meeting the EU's new emissions targets. A spokesman for the group said: "We hope that steps will be taken in the short term that will allow the current emissions targets to be maintained but at the same time make the penalty mechanism more flexible".

It should be noted that any compromise proposal put forward by the European Commission, no matter how advanced, needs the approval of member states and the European Parliament before it can enter into force.

Meanwhile, the European Automobile Manufacturers Association (ACEA) warned in February that carmakers that fail to meet the requirements to reduce average emissions will face heavy fines that could reach more than a billion euros.

The EU is considering reducing the tariffs on American vehicles given Trump's presidency in the US

In February, European media reported that the EU Commission may submit a proposal to reduce the tariffs currently imposed on vehicles imported from the US, in an attempt to prevent a trade war.

The chairman of the European Parliament's trade committee told the Financial Times in February that the EU is willing to reduce the current tariff on vehicles imported from the US from around 10% today to just around 2.5%. He said: "We can try to reach a deal before the tariff war escalates".

He also referred to the Trump administration's threat to impose high tariffs on vehicles imported from Europe due to "An extreme surplus in Europe's trade balance with the US," adding that the EU will also propose increasing purchases of liquefied natural gas and military equipment from the US.

It should be noted that under World Trade Organization (WTO) rules, any decision by the EU to unilaterally reduce auto tariffs would also apply to vehicles made in China and other countries. Although EU officials believe that even if import tariffs on Chinese-made vehicles are reduced, their imports are unlikely to increase because the EU already imposes high tariffs of up to 35% on Chinese-made EVs. But there is no doubt that any additional tax reduction has the potential to provide renewed momentum.

Europe is warning that if talks with the US on a compromise fail, the EU will use additional tools, including imposing higher taxes on American technology and financial companies and suspending the intellectual property protection they are granted. In addition, the organization estimates that formulating such measures will take about six months because the EU needs to assess the extent of the damage to the industry and receive the support of most member states.

The EU notes the quick response of Canada and Mexico to Trump's announcement of the imposition of 25% tariffs, which caused the president to temporarily postpone the imposition of tariffs.

European analysts note that Trump's tariff policy is causing widespread controversy within the US. Among other things, a significant decline on Wall Street was registered after the announcement of the tariff plan, and at the same time, consumer trust in the US fell to a seven-month low in February. Differences of opinion on the subject also exist within the Republican Party, with some elected officials expressing concern that this tariff policy will lead to a surge in inflation.

3. China

China declared an additional 10% tariff on imported American cars with large engine displacement. The cumulative tariff on such vehicles is now at 25%

Many analysts globally have estimated in recent months that a reciprocal response from the Chinese government to US economic sanctions is almost inevitable. This response indeed came in February after China and the US failed to reach a compromise on the new tariffs imposed by the Trump administration on Chinese products imported into the US.

In early February, China's Ministry of Commerce announced an additional 10% tariff on American vehicles with engine displacements of more than 2.5 liters.

The additional tariff raised the total tax rate imposed on such vehicles in China to 25% and is expected to significantly affect the business operations of automakers in China.

According to Chinese customs data, the total value of large-engine vehicles exported by the US to China in 2024 was approximately $3.1 billion. While this volume is insignificant compared to the number of vehicles produced by various Western manufacturers in China itself (as part of local joint ventures), it still worsens the business environment for Western manufacturers in China, which is already problematic.

The Chinese government continues to promote merges in the local auto industry, this time between governmental giants Changan and Dongfeng

At the beginning of this decade, when the Chinese government announced that it had decided to “Encourage” Chinese state-owned automakers to merge in order to reduce competition and exploit economies of scale, many viewed this as an unrealistic option. The state-owned giants have a history that spans decades, as well as distribution and service networks that include hundreds of thousands of dealerships across China, independent export operations, independent manufacturing plants, and sometimes a different managerial culture.

Therefore, many were skeptical about rumors circulating in Chinese media in early February that state-owned giants Dongfeng and Changan were expected to restructure and sign a merger agreement. However, by mid-February the merger track became clear, confirming the rumors.

According to Chinese media, the two giant companies are expected to gradually merge their vehicle production systems, management and financial systems, R&D, and parts procurement. At the end of the process, a new parent company for the automotive sector will be

established, which will be the largest in China and perhaps one of the largest in the world.

According to media reports, there are currently three alternative names for the new parent company, but the first choice is China South Automobile Group, with Dongfeng and Changan being subordinate to it and retaining their independent brand names.

During February, much speculation was raised in China about the future structure of the merged company and its impact on the auto industry. The merger would take a Prolonged strategic planning, and in China, this would also require complex government approvals, which could take years.

However, many agree that integration in the Chinese automotive industry is inevitable in light of the fierce competition, which creates widespread value extinction. Among other things, it is argued that the two merging companies currently come from a position of strength and benefit from many resources. Dongfeng is considered a leader in the CV and heavy vehicle sectors, while Changan has been very successful in the private vehicle sector. Therefore, the merger is synergistic for both companies.

Proponents say the merger will not only help improve both parties' capabilities in technological research and development, manufacturing, and marketing but will also push forward the entire Chinese auto industry, as state-owned automakers lag behind private companies in the transition to new energy vehicles.

In 2024, Dongfeng Motor and Changan Automobile recorded sales of 2.48 million and 2.68 million vehicles respectively, and combined sales exceeded 5 million. After the merger, the new group will become the largest automobile group in China and the fifth largest in the world. This change could greatly improve the international competitiveness of Chinese automobile brands in the global auto market.

4. India

India is consistently increasing vehicle exports while at the same time toughening its stance towards foreign automakers in the country

Car exports from India grew sharply by 19% in 2024, according to official data published in India in February. The volume of the exports, including bikes, amounted to 5.09 million units.

Of this, exports of private vehicles amounted to about 744 thousand units, an increase of 10% compared to 2023, while exports of commercial vehicles jumped by 33% to about 323 thousand units. Exports of two-wheeled vehicles climbed by 23% to about 4 million units, mostly large motorcycles. Exports of trucks rose by about 6% and amounted to 72.5 thousand units. The bulk of exports were to developing countries in Africa and Latin America.

Meanwhile, news agencies reported in February that the Indian government had begun to tighten tax policy towards foreign car manufacturers operating in its territory and to file lawsuits against them for alleged attempts to evade taxes.

5. Japan

Japanese auto industry: workers demand wage increases and US tariffs threaten to cause unemployment

In February, the turmoil in the Japanese auto industry continued and worsened. After the planned merger between the two giants Nissan and Honda fell through, the Japanese Metal Workers' Union (under which most workers in the Japanese auto industry are organized) submitted a demand for a sharp wage increase.

The union, which represents about two million workers, demanded an increase in the monthly base wage of its members by an average of about $95. This is the highest increase since 2014.

The requirements are expected to impose an additional burden on employers in the auto industry, who already have to deal with competition from the Chinese, who enjoy a cost advantage and significantly cheaper wages. The burden is expected to be reflected not only in the direct wage costs of manufacturers but also in the increase in the prices of spare parts from local suppliers, who will pass on the wage costs to their customers.

Meanwhile, the Japanese Automobile Industry Association submitted an urgent request to the government to try to reach a compromise with the US administration, which would prevent the Trump administration's planned increase in tariffs on Japanese-made vehicles and parts.

In a meeting of industry representatives with the Japanese Minister of Industry, the Minister made it clear that the government is ready to take the necessary steps to protect the vital auto industry. About a third of Japan's automobile production is currently exported to the US and the imposition of a 25% tariff would severely affect the entire Japanese economy and employment in the auto industry, which employs about 5.58 million workers, about 8.3% of the total workforce in Japan. In addition, Japanese automakers produce more than 3.3 million vehicles in the US, however, they use many components imported from Japan.

6. South Korea

The Korean auto industry in light of Trump's threat to impose tariffs

As the US raises tariffs on vehicles imported from South Korea in early April, the move could end GM's car manufacturing operations in the country, analysts in South Korea estimated in February.

GM currently exports about 500,000 vehicles a year from its South Korean plants, most of them to the US. These vehicles may now face import duties as high as any foreign vehicle imported. In addition, the South Korean government may take retaliatory measures, which would hurt GM in Korea itself, although the company sold only about 25,000 vehicles in the country last year.

A GM Korea executive hinted in February that the company "Will have to reconsider the location of its factories around the world". GM had already tried to close its car manufacturing operations in the country in 2018 but backed down after the Korean government poured tens of millions of dollars in aid money.

Meanwhile, in February, the chairman of Hyundai Motors U.S.A. submitted an official appeal to the US government to reconsider the intention to impose heavy tariffs on imports of vehicles and their parts from South Korea. According to him: "The Hyundai Motors Group has invested $20.5 billion in the US to date and employs approximately 570,000 people across the US, including thousands of dealerships... Hyundai produced 700,000 vehicles in the US last year and the tariffs will hit it hard".

Hyundai Motors Group (including Kia) is the second largest car importer in the US, importing 1.37 million vehicles last year, surpassing Mexico. 45.7% of the group's total car exports last year were sent to the US.

Analysts in Korea estimate that even in a scenario of a "Limited" 10% sales tax, Hyundai's profits are expected to shrink by about $1.3 billion. Hyundai and Kia are currently in the advanced stages of increasing their US production, which is expected to reach about 1.2 million vehicles per year after the completion of the giant plant being built in Georgia.

7. Israel

Ministry of Finance figures: December and the entire year of 2024 broke historical records in tax collection from auto imports

The advance import and customs clearance of tens of thousands of vehicles before the purchase tax increase in January 2025, along with the reduction of green tax benefits on gasoline vehicles in the same month, resulted in a record in vehicle import tax collection for December, reveals data published by the Ministry of Finance in February.

According to the data, in December 2024, vehicle import taxes totaling approximately NIS 4.7 billion were collected, most of them from purchase taxes and a small amount from customs. This is almost double the total vehicle tax collection in December last year, which was also a month of advance imports in preparation for tax increases. **The data shows that the revenues in**

December alone were about a third of the government's revenue from vehicle import taxes in all of 2023.

According to initial estimates, in 2024 as a whole, about 14.5 billion NIS in purchase tax was collected, about 10% more than in 2023. The Ministry of Finance estimates that the collection in December, resulting from the advance of imports, will come at the expense of a significant decrease in the collection of vehicle taxes in the first quarter of 2025. However, according to estimates, another "Correction" in tax collection is expected in the last quarter of the year due to the expectation of another tax increase in early 2026, mainly on EVs.

It should be noted that the Ministry of Finance is currently working "Behind the scenes" on two substantial tax reforms. The first is the imposition of a mileage tax on EVs, which has already been approved by legislation. Originally, this tax at 15 cents per kilometer, was supposed to be imposed in early 2026; however, due to delays in logistical preparations, it will probably be postponed to later that year or to 2027. In addition, the Ministry of Finance is working on a reform of the value of use, one of the goals of which is to expand the use benefits currently granted to EVs and PHEVs.

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