



Testimony on Investigation Number 332-608, United States- Mexico-Canada Agreement Automotive Rules of Origin: Economic Impact and Operation, 2027 Report

Before the International Trade Commission

Joshua Linn

**Testimony
October 2026**



October 14, 2026

US International Trade Commission
500 E Street SW
Washington, DC 20436

Attn: Hearings Coordinator Robert Stark and Project Leaders Fernando Gracia, Dixie Downing, Conor Hargrove, and Tamara Gurevich

Dear Mr. Stark and USMCA Automotive Rules of Origin Team Members:

On behalf of Resources for the Future (RFF), I am pleased to share the accompanying comments to the US International Trade Commission in support of Investigation No. 332-608 ("*USMCA Automotive Rules of Origin: Economic Impact and Operation, 2027 Report*") as requested in the Federal Register notice 2026-03499 (91 FR 8521) and in anticipation of the public hearing scheduled for October 14, 2026.

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While RFF researchers are encouraged to offer their expertise to inform policy decisions, the views expressed here are those of the individual authors and may differ from those of other RFF experts, its officers, or its directors. RFF does not take positions on specific policy proposals.

If you have any questions or would like additional information, please contact me at cmartin@rff.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Carlos Martín", followed by a horizontal line.

Carlos Martín, Vice President for Research and Policy Engagement

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I am Dr. Joshua Linn, professor at the University of Maryland's Department of Agricultural and Resource Economics and a senior fellow at Resources for the Future (RFF). I study the economic effects of policies affecting the US passenger vehicle markets. My testimony summarizes a **recently published RFF report** which I coauthored with Dr. Beia Spiller. Along with this testimony, I am submitting our report to the committee.

According to the United States-Mexico-Canada Agreement (USMCA), vehicles can be imported duty-free if they contain sufficient contributions from North American inputs and high-wage labor. Using an in-house economic model of the US new-vehicles market, we estimate in our report the effects of levying tariffs of 25 percent on vehicles and parts imported into the United States. We can think of this exercise as an exploration of how tariffs would affect the US market, with and without USMCA exemptions. The tariffs raise the costs of selling vehicles in the United States and increase domestic vehicle production, but only if the tariffs do not include parts imported from Canada and Mexico. Higher costs impose substantial pressure on vehicle manufacturers to raise prices and pass the tariff costs to consumers.

Context

The USMCA has helped integrate the production of parts and assemblage of vehicles in North America. Most vehicles sold in the United States are produced in North America, as are most parts that those vehicles contain. Even vehicles assembled in the United States often contain parts that are imported from Canada and Mexico. Yet this regional integration is not complete; roughly one-quarter of vehicles sold in the United States are produced outside of North America, and many vehicles assembled in the United States contain large amounts of materials and components produced outside the region.

In this globalized context, the United States has introduced tariffs on materials, components, and assembled vehicles imported from outside North America over the past two years. Imports from Canada and Mexico are exempt per USMCA rules, but the exemptions depend on the USMCA's continuation.



The economic fields of international trade and industrial organization indicate the tariffs' potential effects. The vehicle market functions as an oligopoly, meaning that manufacturers possess a degree of market power due to limited competition in selling highly differentiated products. Manufacturers' ability to pass tariffs onto consumers depends on consumers' price sensitivity, and the extent to which raising one vehicle's price causes consumers to switch to other vehicles sold by the same manufacturer rather than by competitors (such substitution relates to home bias, which reflects how domestic vehicles are close substitutes for one another). The price responsiveness varies with factors such as consumer income or geographic location.

When vehicle imports are subject to a tariff, manufacturers who both import and produce domestically could ramp up domestic production while reducing imports. This means that those who have a greater domestic presence increase their vehicle prices by less and will also likely ramp up domestic production in response. However, in the short run, manufacturers will likely face challenges sourcing materials from domestic suppliers given the limited domestic manufacturing base.

One of the tariffs' complications is that they harm vehicle buyers. Tariffs raise prices of imported vehicles. Individuals who continue to purchase imported vehicles will pay more for them. But those who shift to domestic vehicles are also harmed. In the absence of import tariffs, consumers who prefer imported vehicles and would not have chosen a domestic vehicle face fewer benefits from the substitution. Further, import tariffs can increase prices on non-imported vehicles as consumers shifting away from imported vehicles. Thus, individuals who now purchase domestic vehicles will not just be worse off due to having to purchase their less-preferred vehicle; they may also be paying more for it than in the absence of the tariffs.

Analysis

To characterize the short-term effects of import tariffs on the US vehicle industry and households, we use an **RFF economic model** that has been used to **estimate recent policies' economic effects**, such as eliminating greenhouse gas emissions standards. This partial equilibrium model endogenizes households' vehicle choices and manufacturers' pricing and technology choices. In the model, households choose among available new and used vehicles and select the vehicles that maximize their selective wellbeing based on vehicle prices, fuel economy, performance, and other attributes. The consumer preferences are estimated from observed choices reported by over 2 million respondents in a recent buyer survey. Manufacturers choose prices, fuel economy, and performance for vehicles and whether to introduce new products, such as electric vehicles. Manufacturers maximize profits given consumer preferences and vehicle policies such as purchase and production subsidies and federal emissions standards. We estimate supply-side parameters from observed manufacturer product offerings over the past 20 years.

To assess how tariffs interact with USMCA exemptions, we model three tariff scenarios for a single year:

- 1) Only vehicles imported from outside North America face 25 percent tariffs
- 2) Imported vehicles and imported parts from outside North America face 25 percent tariffs
- 3) Imported vehicles and imported vehicle parts face 25 percent tariffs—that is, no USMCA exemptions

We describe the tariffs as increasing in stringency from Scenarios 1 to 3, which reflects how broadly they apply to vehicles sold in the United States. These three scenarios are compared to a no-tariff baseline that includes existing policies as of mid-2025.



Findings

As intended, imposing tariffs on imported vehicles increases domestic production at the expense of imports. In the first scenario, domestic production increases by almost 1 million units (8 percent), while imports fall by more than 1 million units (35 percent). Tariffs on imported vehicles also increase the cost of selling those vehicles in the United States, and manufacturers increase vehicle prices in accordance with consumers' price sensitivity. In the first scenario, which includes tariffs on imported vehicles from outside North America but not parts, we estimate pass-through rates of roughly 75 percent. Vehicles not subject to tariffs also see price increases. The broader the tariffs are across the three scenarios, the larger the market-wide price increases. Total vehicle sales decrease because the higher prices cause some consumers to select used vehicles instead of new ones.

Given the extensive trade of vehicle parts, broadening the tariffs to include parts imported from outside North America (scenario 2) or parts and vehicles produced in Canada or Mexico (scenario 3) dampens the domestic production changes. In fact, in the broadest tariff scenario, domestic production *falls* by more than 1.5 million units because of the higher costs of assembling vehicles in the United States.

Tariffs on imported parts and vehicles from outside North America benefit US-based manufacturers since they are more likely than other manufacturers to use domestically produced parts and to produce their vehicles domestically. However, if tariffs are extended to include parts and vehicles produced in Canada and Mexico—as would occur without USMCA exemptions—the tariffs actually *reduce* profits of US-based manufacturers by \$8 billion annually. Finally, tariffs reduce consumer wellbeing in all three scenarios. We find relatively little consumer substitution given a strong apparent home bias. Overall, the tariffs reduce total wellbeing across vehicle consumers and manufacturers, and the costs to consumers far outweigh the tariff revenue.

Summary and Conclusion

Imposing tariffs on imported vehicles, but not parts, increases domestic vehicle production but imposes costs on US households that exceed manufacturer profits and tariff revenue. Broader tariffs that include parts and encompass production in Canada and Mexico may not even benefit US-based manufacturers.

This analysis assumes manufacturers pass tariffs through to vehicle prices according to consumers' price sensitivity. Last year, some manufacturers pledged that they would not increase prices and instead absorb the tariffs. If pledges hold, the results presented here indicate tariff pressure on manufacturers to maintain prices. Their initial strategy may not be sustainable if tariffs persist in the long run. Our analysis also does not attempt to quantify long-run investment in domestic production. Given investments' lead times, scale, and the inability to recover costs if investments are subsequently abandoned, uncertainty over tariffs likely dampens enthusiasm for domestic production investments.

Thank you for the opportunity to provide testimony and share my research.