Centre for WTO Studies
Centre for Research in International Trade
Indian Institute of Foreign Trade

Policy Brief

Policy Brief No. 13

Reinforcing Market Access:
UK's Auto Export Strategy under US Tariff Concessions

Authors:

Saptarshee Mandal, Dr. Pritam Banerjee

Automobile Sector under US-UK Trade Deal

The 2025 U.S.–U.K. Economic Prosperity Deal, signed during the G7 summit in June, marks a significant shift in bilateral trade dynamics between the two countries. This agreement, promoted by the Trump administration as part of its "reciprocal tariffs" policy, emphasizes sector-specific tariff adjustments rather than a broad free trade agreement. The most important provision is the reduction in U.S. tariffs on British-made vehicles from 27.5% down to 10% (MFN + 7.5%) but with an import quota of the first 100,000 cars annually and thereafter 27.5% (MFN + 25%). This change benefits U.K. automakers like Jaguar Land Rover and Mini, who exported approximately 92,000 vehicles to the U.S. in 2024, giving them a price edge without fully opening the U.S. market. However, any exports above the quota will still face the full 25% Section 232 tariff, limiting the scope of benefit.

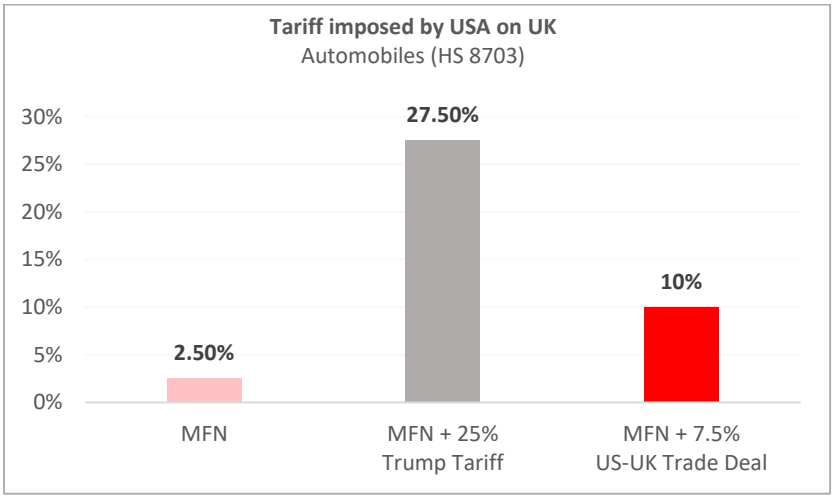

***Fig: 1**; Data Source: USITC*

The trade deal has drawn mixed reactions in the U.S., particularly from domestic automakers wary of foreign competition. However, the Trump administration views the deal as a strategic model for future deals with countries like India and Japan, shaping the geopolitical landscape. Overall, the U.S.–U.K. trade deal underscores a shift toward managed trade based on negotiated quotas and reciprocal concessions rather than across-the-board liberalization, a trend that is likely to influence future global trade dynamics.

United Kingdom's Export of automobiles (under 8703) to USA

HS 6	Description	Import Value (in Million USD)	Share out of total 8703 imports	Import Quantity (in units)	Share out of total 8703 quantity imports
870310	MOTOR VEHICLES WITH BOTH SPARK-IG AND ELECTRIC MOTOR, CAPABLE OF CHARGE BY PLUGGING TO EXTNL PWR	1.47	0.02%	263	0.24%
870321	MOTOR VEHICLES, WITH BOTH COMPRESSION-IGNITION INTERNAL COMBUSTION (DIESEL/SEMI-DIESEL AND ELECTRIC MOTOR, CAPABLE OF CHARGED BY PLUGGING	0.93	0.01%	87	0.08%
870322	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYLINDER CAPACITY NOT OVER 1,000 CC	14.25	0.15%	626	0.57%
870323	PASSENGER MOTOR VEHICLES WITH COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINE (DIESEL), CYLINDER CAPACITY NOT OVER 1,500 CC	1351.05	13.91%	34704	31.53%
870324	PASSENGER MOTOR VEHICLES WITH COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINE (DIESEL), CYLINDER CAPACITY OVER 2,500 CC	3216.18	33.11%	20804	18.90%
870331	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYLINDER CAPACITY OVER 1,000 CC BUT NOT OVER 1,500 CC	0.07	0.00%	9	0.01%
870332	PASSENGER MOTOR VEHICLES WITH COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINE (DIESEL), CYLINDER CAPACITY OVER 1,500 CC BUT NOT OVER 2,500 CC	16.08	0.17%	430	0.39%
870333	MOTOR VEHICLES, WITH BOTH COMPRES-IG INTERNAL COMBUS PISTON ENGINE (DIESEL/SEMI-DIESEL) AND ELECTRIC MOTOR,NOT CHARGED BY PLUG	1.09	0.01%	81	0.07%
870340	PASSENGER MOTOR VEHICLES, WITH BOTH APRK-IG INTRNL COMBUST AND ELECTRIC MOTOR, OTHER THAN THOSE CHARGES BY PLUGGIN TO EXTERNAL ELECTRIC POWER	4302.22	44.28%	45789	41.61%

870350	MOTOR VEHICLES WITH ONLY ELECTRIC MOTOR,NESOI	0.19	0.00%	6	0.01%
870360	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYLINDER CAPACITY OVER 1,500 CC BUT NOT OVER 3,000 CC	510.41	5.25%	5032	4.57%
870370	PASSENGER MOTOR VEHICLES, NESOI	11.20	0.12%	56	0.05%
870380	PASSENGER MOTOR VEHICLES SPECIALLY DESIGNEED FOR TRAVELING ON SNOW; GOLF CARTS AND SIMILAR VEHICLES	289.48	2.98%	2160	1.96%
870390	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYCLINDER CAPACITY OVER 3,000 CC	0.28	0.00%	6	0.01%
8703		**9714.89**		**110053**	

Data Source: US Dataweb

The export data for passenger motor vehicles from the United Kingdom to the United States (HS Code 8703) shows that the UK primarily exports a narrow set of vehicle categories that dominate both in terms of value and quantity. In 2024–25, the UK exported a total of 110,053 vehicles worth $9.71 billion to the U.S. The largest export segment was non-plug-in hybrid vehicles (HS 870340), which accounted for a remarkable 44.28% of the total value and 41.61% of the units. This underscores the UK's hybrid technology strength and competitive advantage in this segment. The next significant category was diesel vehicles with engine capacity over 2,500 cc (HS 870324), comprising 33.11% of export value but only 18.90% of units, indicating a high unit value for luxury or high-performance diesel models. In contrast, smaller diesel vehicles (HS 870323) made up only 13.91% of value but a substantial 31.53% of units, suggesting that the UK also caters to the mid-range diesel segment with high volumes.

Despite the global shift towards electric mobility, the UK's exports to the U.S. in this area remain minimal. Plug-in hybrid vehicles (HS 870310 and HS 870321) and fully electric vehicles (HS 870350) together account for less than 0.1% of both export value and volume, indicating that the UK's current export basket is still concentrated in traditional and hybrid internal combustion engine vehicles. The current export volume of 110,053 units suggests that nearly all UK car exports to the U.S. could benefit from this lower tariff, improving their price competitiveness in the U.S. market although the price competitiveness will be applicable within the import quota.

How competitive is UK compared to its competitors?

To understand whether UK is becoming more competitive and securing greater market access in US due to the tariff reduction compared to its peers, we tried to compare unit price of automobiles exported to US by major exporters under three major categories of HS 6 classification in which UK has a stronghold in terms of exports to US based on export value and quantity. In almost all the cases, although unit price of exported automobiles have dropped for UK post trade deal, the gain in competitiveness has remained insignificant. This is mainly due to two reasons. First, the restriction of imports of automobiles at 10% tariff, and second, the UK serves the market for high-end cars, which are priced very high. The demand for those segments of cars is more or less inelastic. Inelastic demand means that the consumers demanding those segments of high-end cars are affluent, and their demand will not fluctuate much with a rise or fall in price.

HS 870323: Diesel Engine under 1500 cc

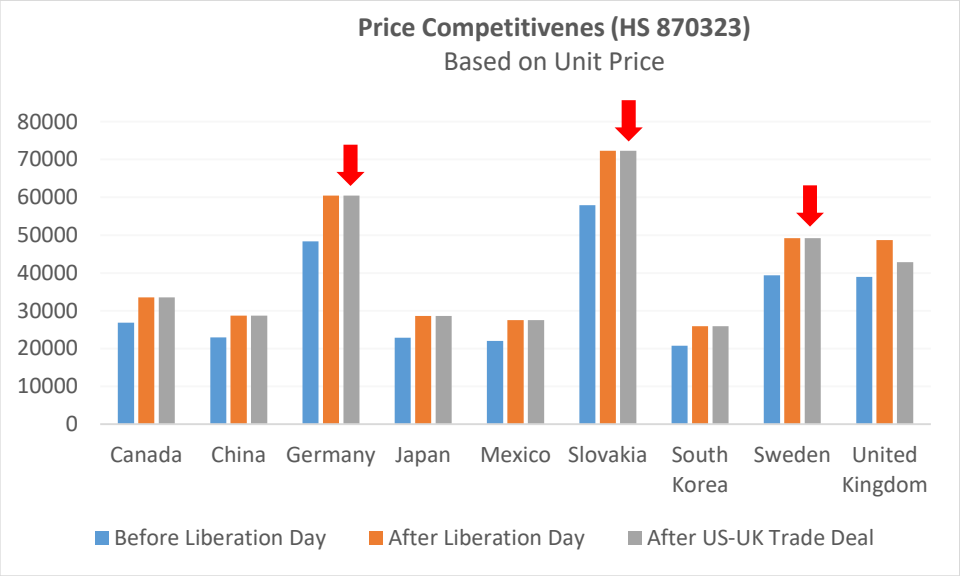

Fig: 2; *Data Source: Author's own calculation using USITC data*

While the introduction of the 25% "Liberation Day" tariff had initially raised the unit price of exports, making them less competitive, the subsequent bilateral agreement reduced tariffs to 10% on up to 100,000 UK-made vehicles annually. This is reflected in the noticeable drop in the grey bar for the UK in the case of HS 870323, signaling a clear cost advantage over European competitors like Germany, Sweden, and Slovakia, whose vehicle prices remained elevated. The UK has now restored its competitiveness among major exporters, with the

potential to benefit from both restored but limited price competitiveness and access to the U.S. market. Although the UK is more competitive than the EU, the country's specialization in high-end cars, even in the budget car segment, has reduced price competitiveness compared to countries like Canada, Mexico, Japan, and South Korea, with much lower unit prices.

HS 870324: Diesel Engine over 2500 cc

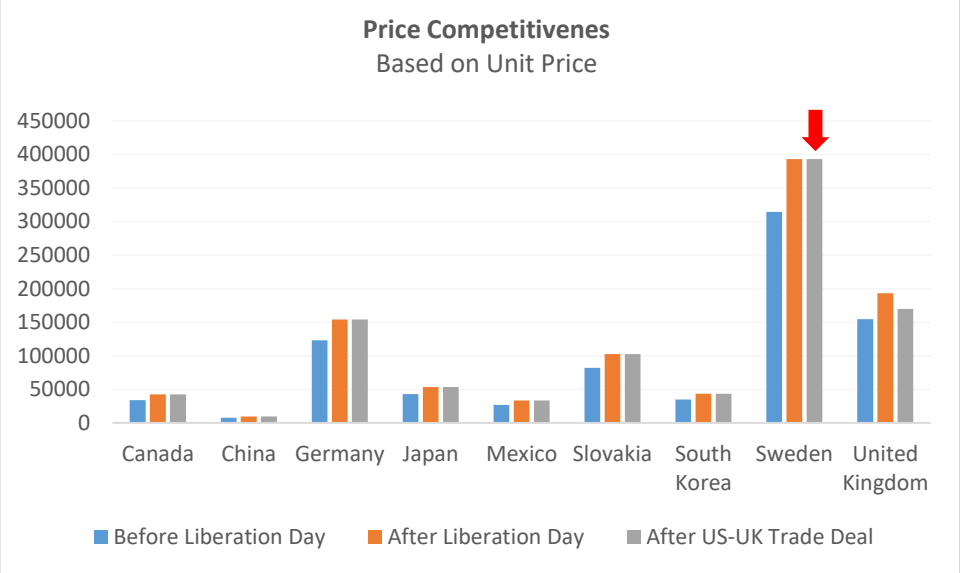

Fig: 3; *Data Source: Author's own calculation using USITC data*

For HS 870324, which encompasses high-end cars such as Land Rover, Jaguar, etc., the UK's price competitiveness, even with lower tariffs, is not as strong as in Sweden. However, the UK's specialization in high-end luxury cars, which have a strong inelastic demand in the US among the high-income group, positions the UK and EU to maintain a dominant presence in the luxury high-end cars segment. This is despite the potential for other countries to offer lower unit prices. Therefore, the competitiveness in the case of HS 80324 segment is primarily based on quality and market goodwill, rather than just the price factor.

HS 870340: Hybrid vehicles with spark ignition combustion and electric motor (no electric plug-in)

In this particular segment of HEV, the demand is notably inelastic, providing a stable and reliable market for high-end cars catering to the higher-income group population of the USA. The competitiveness in this segment is not based on price but quality and features. As a result,

countries like UK, Germany, Sweden, although having higher unit price compared to others, have a significant stronghold in the US domestic market. UK, for instance, exported more than 45,000 units of HEVs, which is almost 41% of the total exports of automobiles to the US in 2024. While UK unit prices are still above pre-tariff levels, the trade deal cushions the impact and restores a significant part of the UK's lost competitiveness in the US market.

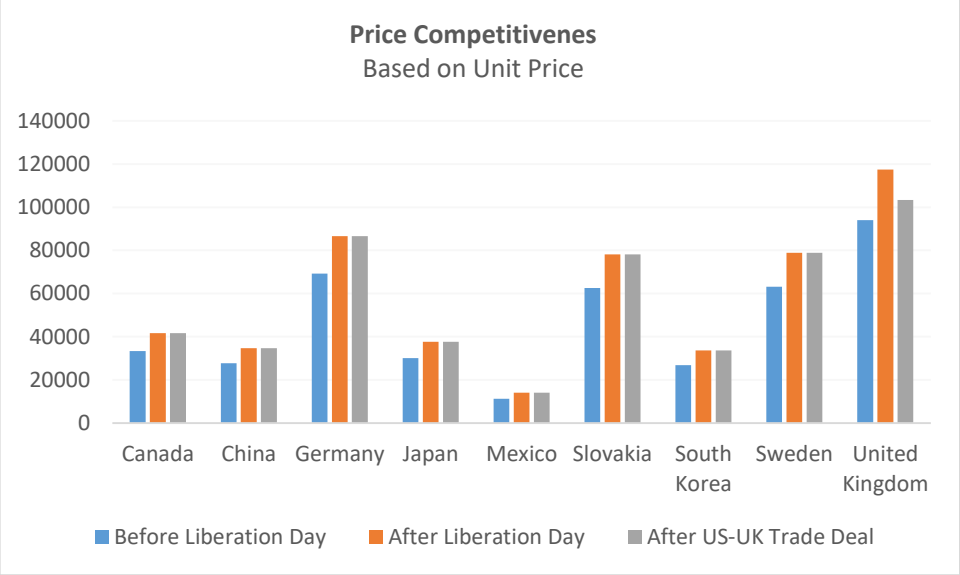

Fig: 4; *Data Source: Author's own calculation using USITC data*

Why the trade deal is a win-win situation for UK?

The ceiling on automobile exports from the UK at a 10% tariff may seem like a limitation in terms of trade gain for the UK. However, the import demand for UK-made automobiles in the USA is somewhat inelastic. The reason for this is that the segment of cars that the UK exports is mainly luxury high-end cars, which cater to a specific target population in the US having inelastic demand. As a result, on an average, the UK's exports to the US have remained at around 100000 vehicles, which fall under HS 8703 segment.

If we take into consideration the coverage of exports under a 10% tariff with a quantity restriction of 1 lakh units on past export data from the UK to the US for HS 8703, figure 5 shows that almost 96.47% of exports from the UK get covered under a 10% tariff quota if we see the last 5-year average. 'Export coverage' here refers to the percentage of total exports that

fall under the specified tariff and quantity restrictions. For the last 10 years on average, the export coverage under the 10% tariff comes at around 74%, and for the last 20 years on average, the export coverage stands at 82.48%, which shows that for the last 20 years, the UK's export to the US has been around 1 lakh units on an average and a substantial part of its auto exports is getting covered under the 10% tariff quota.

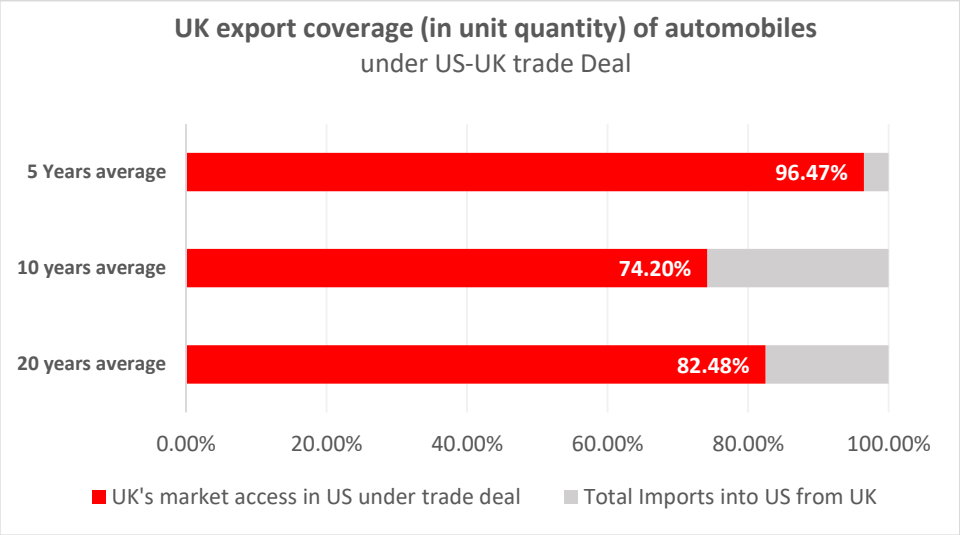

Fig: 5; *Data Source: Author's own calculation using USITC data*

Figure 6 shows a five-year forecast of the UK's export of automobiles to the US till 2030 under a 2.5% MFN tariff. The forecast validates our point that due to the inelastic demand nature for the segment of cars exported by UK to US, which means that changes in price do not significantly affect the quantity demanded, there will be no substantial increase in exports even at the original MFN tariff of 2.5% which, was the pre-liberalisation tariff of US on automobiles. The trade deal with US, is a clear win-win situation for UK, as it secures the competitiveness of UK made cars and keeping the market share stable in the US domestic auto market. So, even with the export limitation at 10% tariff, and with an export forecast of around 1 lakh units per year till 2030, UK has been benefited with this sectoral deal with US.

While the UK may not experience a significant trade gain, the trade deal ensures the stability of the UK's market share in the US. This is a confident outcome, demonstrating the effectiveness of the deal in securing the existing market share for UK automobiles in the US.

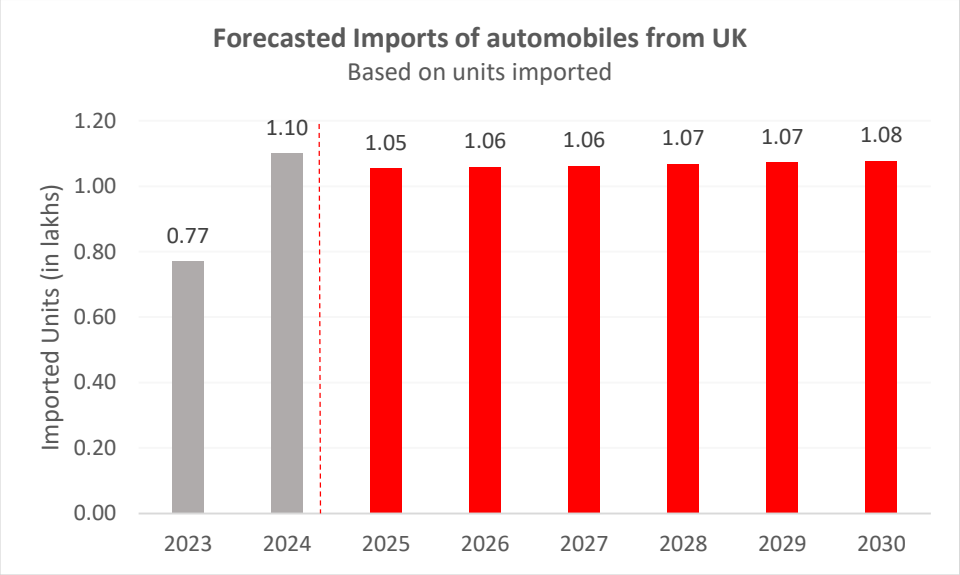

Fig: 6; *Data Source: Author's own calculation using USITC data*

Is UK a major export of automobiles to USA?

Figure 7 shows the top automobile import sources for the United States, measured by import value in billion USD. Mexico leads as the largest supplier, followed by Japan, South Korea, and Canada all exceeding $30 billion in annual export value in 2024 to the US. Germany also holds a significant share, just below Canada. In contrast, the United Kingdom, highlighted in red, ranks lower, exporting just under $10 billion worth of vehicles. This highlights UK's comparatively limited presence in the U.S. auto market when measured against leading Asian and North American manufacturers.

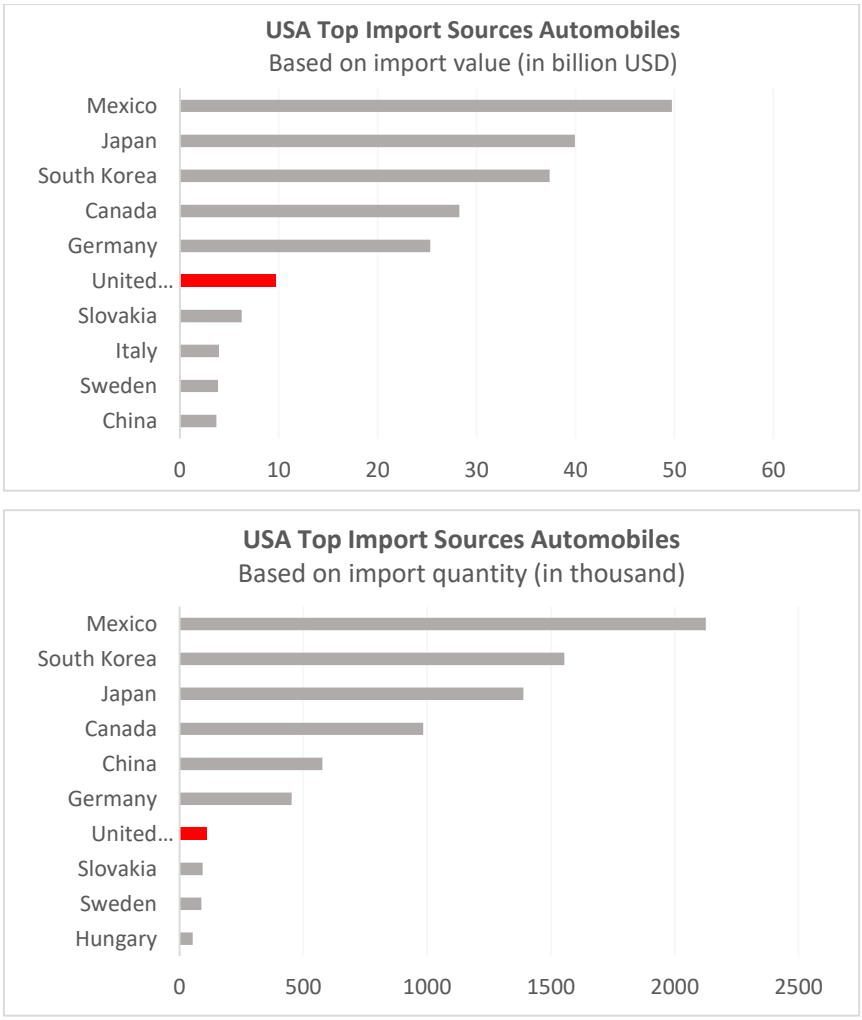

Fig: 7 and 8; *Data Source: USITC data*

The above figure showing USA's top automobile import sources by quantity (in thousands), highlights how Mexico, South Korea, Japan, and Canada dominate the U.S. vehicle import market. Mexico leads by a large margin, exporting over 2 million units, followed by South Korea and Japan, each above 1.3 million units. In contrast, the United Kingdom, marked in red, contributes a much smaller share placing it well behind other major suppliers.

So, in way due to specialization in high end luxury cars which comes with a very specific target market and high per unit cost, UK's contribution in US domestic auto market has remained limited in terms of both export value and quantity.

UK's gain if import quota (restriction) is removed on 10% tariff

Country	Trade Loss (in Million USD)	Share out of total trade diversion
EU	-61.11	26.8%
Japan	-56.60	24.9%
Canada	-45.35	19.9%
South Korea	-40.81	17.9%
Mexico	-21.48	9.4%
China	-1.15	0.5%

Data Source: TINA

The above table shows the estimated trade diversion to the UK in a hypothetical situation where US reduces its import tariff on all UK automobile exports to 10% with no quantity cap, while keeping MFN+25% tariffs for all other trading partners. In such a setting, UK-made cars become comparatively cheaper in the U.S. market relative to competitors, making U.S. importers likely to substitute away from traditional suppliers like the EU, Japan, Canada, South Korea, and Mexico, in favour of UK vehicles. Although the exports from UK to USA will increase only by 5% in such a situation based on partial equilibrium analysis.

The EU would be the biggest loser, with a projected trade diversion loss of $61.11 million, equivalent to 26.8% of the total diverted trade, likely due to its similar vehicle mix and overlap with the UK in premium and hybrid segments. Japan, with strong exports of mid-sized and fuel-efficient cars, would lose $56.6 million (24.9%), while Canada and South Korea would lose $45.35 million and $40.81 million, respectively. Mexico, known for exporting in large volumes under the USMCA framework, would also lose $21.48 million (9.4%), suggesting that price-sensitive buyers may shift some demand to the UK despite Mexico's logistical advantage. Interestingly, China's loss is minimal ($1.15 million), likely because it already faces heavy restrictions and tariffs on automobile exports to the U.S., leaving little trade to divert.

Can India leverage the US-UK trade deal?

The United States is India's largest export market for automobile parts in 2024, accounting for $4.17 billion, which is nearly 25% of India's total auto parts exports a dominant share that reflects deep supply chain integration between Indian manufacturers and the U.S. auto industry.

Germany follows as the second-largest destination with exports worth $1.07 billion (6.29%), indicating strong demand from Europe's automotive hub.

Countries	Exports (in Million USD)	Share in exports
United States	4172.87	24.51%
Germany	1070.37	6.29%
Turkey	774.74	4.55%
Brazil	712.06	4.18%
Thailand	663.97	3.90%
Mexico	644.82	3.79%
United Arab Emirates	611.56	3.59%
United Kingdom	**545.79**	**3.21%**
Indonesia	455.77	2.68%
Vietnam	451.87	2.65%

Data Source: WITS

Other significant markets include Turkey ($774.7 million), Brazil ($712 million), and Thailand ($664 million), each contributing around 4–5% to India's auto parts export basket. Notably, the United Kingdom, which now enjoys favourable tariff access for car exports to the U.S., currently accounts for $545.8 million (3.21%) of India's auto parts exports. The reduced tariff will help India maintain its current level of exports of automobile parts to UK, though chance of increase in exports in future is less because of UK's export restriction of automobiles to US at lower tariff.

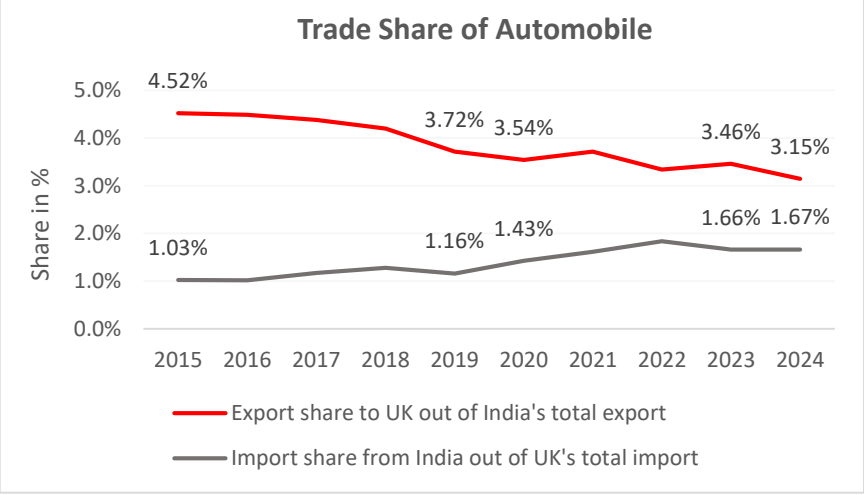

Fig: 9; *Data Source: Author's own calculation using USITC data*

Figure 9 shows a significant trend-the UK's share in India's total automobile exports has steadily decreased from 4.52% in 2015 to just 3.15% in 2024. This decline indicates a notable shift in India's export focus towards other markets. The grey line, on the other hand, depicts a gradual increase in the UK's import share from India, rising from 1.03% in 2015 to 1.67% in 2024. This suggests that while the UK is becoming slightly more reliant on Indian auto imports, India's dependence on the UK as an export destination is weakening. The trend points to a growing asymmetry, where India is playing a marginally bigger role in the UK's auto import supply, but the UK is becoming a less significant destination for Indian exports, possibly due to stronger demand in markets like the U.S. or Southeast Asia.

In conclusion, the US-UK trade deal has, in a way, secured the existing market for UK-made automobiles in the US domestic auto market at a 10% tariff, which is 15.5% lower than that of other countries. However, the potential gain in trade is limited due to import restrictions post 1,00,000 units, which would increase the tariff to 27.5%. As a result, the export of automobile parts from India to the UK is expected to remain stable and follow the current flow. While the probability of a significant increase in exports to the UK might not be high, the possibility of a decline in exports will be minimal due to the consistent demand for auto parts from UK car manufacturers exporting to the US. For future trade deals countries should not only consider price competitiveness, but also quality, goodwill and target market of their exports to secure better trade deals with partner countries.

****

ABOUT THE AUTHOR

	**Mr. Saptarshee Mandal** is a Young Professional (Researcher) at Centre for WTO Studies, with almost 2 years of expertise in international trade including Trade in Services, Trade in Goods and Global Value Chains. He holds a Master's Degree in Economics from University of Hyderabad and BA (Hons) Economics from Visva Bharati University. He has previously worked as a research intern at Institute of Social and Economic Change, Bangalore and Indian School of Business, Hyderabad.
	**Dr. Pritam Banerjee** is the Head of the Centre for WTO Studies (CWS) at the Centre for Research in International Trade (CRIT), Indian Institute of Foreign Trade (IIFT), New Delhi, where he leads advisory efforts on trade remedies and policy space. With over 15 years of experience in economic policy and trade facilitation, he has previously served as a Consultant with the Asian Development Bank (ADB) and as Senior Director for Public Policy at Deutsche Post DHL Group, overseeing the South Asia region. He has also led Trade Policy at the Confederation of Indian Industry (CII) and worked with the World Bank. Dr. Banerjee has been a member of the National Council for Trade Facilitation (2016-2023) and a special invitee to the Committee on Ease of Doing Business Reforms under the Ministry of Commerce. He holds a PhD in Public Policy from George Mason University and a Master's in Economics from Jawaharlal Nehru University. He has published extensively on international trade, regional integration, and logistics

ABOUT THE CENTRE

About CRIT

India's Foreign Trade Policy (FTP) Statement 2015-20 suggested a need to create an institution at the global level that can provide a counter-narrative on key trade and investment issues from the perspective of developing countries like India. To fill this vacuum, a new institute, namely the Centre for Research on International Trade (CRIT), was set up in 2016. The vision and the objective of the CRIT were to significantly deepen existing research capabilities and widen them to encompass new and specialised areas amidst the growing complexity of the process of globalization and its spill-over effects in domestic policymaking. Secondly, enhancing the capacity of government officers and other stakeholders in India and other developing countries to deepen their understanding of trade and investment agreements.

About CWS

The Centre for WTO Studies which is a constituent Centre of CRIT, pre-dates the CRIT since it was created in 1999 to be a permanent repository of WTO negotiations-related knowledge and documentation. Over the years, the Centre has conducted a robust research program with a series of papers in all spheres of interest at the WTO. It has been regularly called upon by the Government of India to undertake research and provide independent analytical inputs to help it develop positions in its various trade negotiations, both at the WTO and other forums such as Free and Preferential Trade Agreements and Comprehensive Economic Cooperation Agreements. Additionally, the Centre has been actively interfacing with industry and Government units as well as other stakeholders through its Outreach and capacity-building programs by organizing seminars, workshops, subject-specific meetings, etc. The Centre thus also acts as a platform for consensus- building between stakeholders and policymakers. Furthermore, the inputs of the Centre have been sought after by various international institutions to conduct training and studies.

CENTRE FOR WTO STUDIES

5th to 8th Floor, NAFED House, Siddhartha Enclave, Ashram Chowk, Ring Road, New Delhi – 110014

http://wtocentre.iift.ac.in/