

THE AGREEMENT AT A GLANCE

Concluded in **July 2025** and effective September 2025, the pact averts a trade war by replacing threatened punitive duties (25.0%-27.5%) with a uniform **15% baseline tariff**. This deal marks a permanent shift from the historic low-tariff regime (2.5%), creating a "Managed Trade" environment where the US utilizes trade policy to force the capitalization of its own industrial base.

! Retroactive Liability: Tariffs were applied retroactively to imports entering on or after **August 7, 2025**, creating an immediate and severe liability for importers during the transition period.

Key Component	United States Position	Japan Position
Auto Import Tariff	15% Uniform Baseline (Up from 2.5%; Averted 25%)	Remains at 0%
Market Access	Maintains Access at 15%	Regulatory Harmonization (Accepts US Safety Standards)
Investments	Receives ~\$550 Billion (Directed via SPVs by 2029)	Provides Capital (To revitalize US industries)
Profit Sharing	US retains 50-90% (Of profits from SPVs)	Japan retains 10-50%

FINANCIAL IMPACT (H1 2025)

The retroactive application of duties and logistical disruptions caused a severe shock. The top seven Japanese automakers lost an estimated **¥1.5 trillion** in revenue in H1 2025.

-¥1.5 Trillion

SECTOR REVENUE LOSS

Aggregate revenue loss for top 7 automakers in H1 2025 due to retroactive duties and disruption.

Net Loss

EXPORT-DEPENDENT PLAYERS

Nissan, Mazda, Mitsubishi posted net losses, lacking the deep US manufacturing footprint to hedge against tariffs.

+5% Sales

TOYOTA RESILIENCE

Absorbed **¥900bn** in tariff costs yet hit record global sales, driven by a **9% rise** in hybrids.

Structural Disparity: While Japanese automakers face a 15% tariff wall, US manufacturers (Ford, GM) are not immune. They continue to face cost pressures from tariffs on imported components (including the 15% levy on Japanese parts) and steel duties, complicating the "domestic advantage."

STRATEGIC RESPONSES



Absorb Costs (Margin Compression)

Used by large, diversified players to defend market share.

- **Toyota:** Cut revenue forecast by 16%; expects **US\$ 10bn** earnings hit. Prioritizing long-term presence.
- **Honda:** Slashed profit forecast by 21%, pricing in a **¥385bn** impact.



Pass Costs (Demand Erosion)

Used by players with weak balance sheets, risking volume decline.

- **Nissan:** Forecasts **¥275bn** operating loss in FY26.
- **Mazda:** Expects **¥233.5bn** profit hit. FY26 operating profit guided to just **¥50bn** (~73% lower YoY).



Aggressive Cost Discipline

Internal austerity to offset structural cost increases.

- **Subaru:** Launched **¥200bn** cost-cutting program through 2030 to stabilize margins in a permanent tariff environment.



Accelerated Localization

The most durable response to avoid the 15% duty.

- **Toyota:** Production started at **US\$ 13.9bn** battery plant in NC (5,100 jobs).
- **Future Plans:** Additional **US\$ 10bn** investment planned to further insulate high-value supply chains.

💡 OUTLOOK & KEY TAKEAWAYS

💡 SECTOR IMPLICATIONS

- **Investment Shift:** Capital expenditures will shift exclusively to the US. The \$550 billion commitment ensures capital flows favor US industrial expansion over domestic Japanese capacity.
- **Efficiency vs. Resilience:** The "Hub and Spoke" export model is dead. Japanese automakers will prioritize supply-chain resilience (local production) over operational efficiency (centralized shipping).
- **Earnings Divergence:** **Toyota & Honda** are expected to face moderate pressure but remain profitable. **Nissan & Mazda** may face sharp earnings pressure as high costs erode their pricing advantage in their most critical market.
- **Regulatory Reality:** Despite the acceptance of US safety standards, structural barriers and consumer preferences in Japan imply this regulatory win will not materially increase US car sales in Japan.

💼 FOR INVESTMENT MANAGERS

- **Valuation Re-rating:** Expect a structural valuation premium for OEMs with established US manufacturing (Toyota, Honda) over export-heavy peers, as tariff insulation becomes a key quality metric.
- **Capital Allocation Shift:** Free cash flow yields may compress in the near term as companies redirect capital into US-based Special Purpose Vehicles (SPVs) to meet the \$550bn commitment, potentially weighing on dividend growth and buybacks.
- **Portfolio Rotation:** Consider reducing exposure to pure-play Japanese exporters and rotating into diversified global OEMs or US domestic suppliers who benefit from the localized production mandate.



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