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Ending the "Chicken War"
The Case for Abolishing the 25 Percent Truck Tariff

by Dan Ikenson

Executive Summary

In 1962 the European Economic Community raised tariffs on imported chicken, effectively shutting U.S. producers out of a growing and lucrative poultry market. One year later, the United States retaliated by boosting tariffs on four products important to European exporters: potato starch, dextrin, brandy, and light trucks. The "chicken war" was under way.

Forty years later, the truck tariff still stands at a whopping 25 percent and nobody quite knows why. It's a policy in search of a rationale.

The retaliatory purpose of the truck tariff was served. U.S. producers, whom the tariff presumes to protect, dominate the market despite the fact that the large Japanese producers manufacture pickup trucks in the United States (that is, inside the tariff wall).

Having made huge investments in U.S. truck production, foreign producers are not about to leave even if the truck tariff is eliminated. After all, foreign carmakers continue to invest in new U.S. production facilities even though the duty on automobiles is only 2.5 percent. The bottom line is that car and truck producers want to manufacture in their biggest markets.

If the truck tariff has any justification at all, it is as a bargaining chip in trade negotiations. But, since the major foreign pickup truck producers already manufacture in the United States, the truck tariff's value as a bargaining chip is minimal. A U.S. offer to remove the tariff is of limited commercial value to foreign countries and thus is unlikely to "buy" much in the way of reciprocal market-opening offers.

The truck tariff actually works to weaken the U.S. bargaining position by undermining the credibility of overall U.S. trade policy. Maintaining a tariff peak of 25 percent—almost 10 times the average U.S. tariff—is unfair to consumers and is jarringly inconsistent with the general U.S. commitment to open trade and ongoing reduction of trade barriers. The truck tariff should be eliminated as soon as possible.

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Skeptical trade partners need only look to the 25 percent truck tariff for evidence of how the United States too often fails to live up to its own free-trade rhetoric.

Introduction

This year marks the 40th anniversary of Presidential Proclamation no. 3564—the U.S. retaliatory response to Europe's opening salvo in the less-than-epic trade dispute that came to be known as the "chicken war." Responding to unfair tariff treatment of U.S. chicken exports by a nascent European Economic Community, in December 1963 President Lyndon B. Johnson authorized retaliatory tariff increases on light trucks valued over $1,000, brandy valued at more than $9.00 per gallon, dextrin, and potato starch.[1]

Much has changed over 40 years. As it expanded from an original 6 to 15 countries, the EEC became the European Community and then the European Union. Three separate multiyear, multilateral rounds of trade liberalizations—the Kennedy Round, the Tokyo Round, and the Uruguay Round—were concluded, and a fourth, the Doha Round, was initiated. And during this period the retaliatory measures against imported brandy, dextrin, and potato starch were lifted.

The one constant since 1963 has been the truck tariff. It has remained at a punishing 25 percent since Proclamation 3564 took effect. As a measure designed to persuade the EEC to change its protectionist chicken policy, the truck tariff was an abject failure. U.S. exporters quickly lost the European chicken market. Yet, decades after the fact, the truck tariff remains in place, a textbook example of a "temporary" government policy that has taken on a life of its own.

The truck tariff now serves no useful purpose. The chicken war is over and forgotten; the tariff's original retaliatory purpose thus ended long ago. The usual purpose of high tariffs—protectionism—is also inapplicable. Domestic truck producers dominate the U.S. market and thus have no need of protection. In any event, the major foreign producers of light trucks already manufacture in the United States—that is, inside the tariff wall.

The only remaining explanation for the tariff's endurance is that it serves as a "bargaining chip"—something to be swapped for market-access concessions abroad in trade negotiations. But whatever limited value the tariff has as a negotiating chit is overwhelmed by the costs it imposes on a wide array of U.S. interests. The tariff forces consumers to pay higher prices for a smaller selection of light trucks. It deprives a globally integrated automobile industry of optimal sourcing and production options. And, in ways difficult to quantify precisely, the tariff undermines U.S. leadership on trade liberalization initiatives, which would bring benefits to consumers and businesses across the domestic spectrum.

Skeptical trade partners need only look to the 25 percent truck tariff for evidence of how the United States too often fails to live up to its own free-trade rhetoric. That a temporary, retaliatory duty became a permanent tariff "peak" is a bit of trade history that undermines U.S. credibility and lends encouragement to protectionist foot-draggers around the world.

To its credit, the Bush administration has proposed the eventual phase out of the truck tariff under its "zero for zero" proposal to the World Trade Organization for gradually eliminating tariffs on all industrial goods. But perpetuating the truck tariff anachronism until 2015, if not later, simply isn't good enough. The chicken war should be ended now, with unilateral revocation of the truck tariff. At the very least, it should be scheduled for immediate elimination upon the conclusion of the Doha Round of WTO talks. That modest step would do no cognizable harm to any U.S. interest. It would, however, help to restore U.S. leadership on trade in its strongest and most durable form—leadership by example.

The "Chicken War"

The 25 percent truck tariff dates back to the early 1960s, when the EEC unveiled its still controversial Common Agricultural Policy. In the early years of the CAP, the EEC identified poultry as an agricultural growth industry and sought to cordon off its market for its own farmers with implementation of Regulation 22.

At the time, U.S. exports accounted for a growing share of the European poultry market, particularly the West German market. In 1956 approximately 1.1 percent of West Germany's poultry imports were of U.S. origin; by 1962 that figure was nearly 25 percent.[2] In that same year, the EEC introduced Regulation 22 of the CAP, which tripled the West German tariff on poultry from 4.5 cents per pound to an EEC tariff of approximately 13.5 cents per pound.[3] What had been $30.7 million in U.S. "broiler" chicken exports to West Germany in 1962 dwindled to a paltry $572,000 *to the entire EEC* by 1974.[4]

On December 4, 1963, President Johnson signed into law Proclamation no. 3564, after 18 months of fruitless negotiations between U.S. and EEC trade officials. The resulting retaliatory tariffs on trucks and other products were designed to pressure the EEC to reverse course on its emerging, protectionist CAP, and in particular on Regulation 22. The products targeted were carefully selected to affect industries most important to the EEC (and in particular to West Germany and France) while minimizing the impact on exports from other trade partners.[5] In 1962 about 94 percent of the U.S. import value of the products on the final retaliation list originated in EEC countries.[6]

As Time Goes By

In 1964 U.S. imports of "automobile trucks" from West Germany declined to a value of $5.7 million—about one-third the value imported in the previous year.[7] Soon after, Volkswagen cargo vans and pickup trucks, the intended targets, "practically disappeared from the U.S. market."[8] At that time, no other foreign manufacturers were significant players in the U.S. market.

But what began as precisely targeted retaliation soon became something very different. In the 1960s, the Japanese were beginning to sell pickup trucks in the United States—sales that were affected by the truck tariff. To remain viable after the tariff was imposed, and to supply U.S. consumers with affordable light truck options, Japanese producers began exporting to the United States "cab chassis" (the entire truck minus the cargo box or "truck bed"), which were classified differently by U.S. Customs. Cab chassis were subject to a more tolerable 4 percent tariff. After importation, a box was attached to the chassis and the unit was sold as a pickup truck.

Several popular truck models were produced and sold according to this formula, and U.S. producers—to that point inexperienced in the design and production of small pickup trucks—profited from the arrangement. U.S. nameplate pickups, such as the Chevy Luv, were assembled primarily from Japanese parts. Once a domestic market for small trucks proved viable, however, U.S. producers decided it was time to cut the Japanese out of the loop.

In 1980, at the behest of U.S. producers and unions, U.S. Customs reclassified cab chassis as trucks, subjecting them to the 25 percent duty and closing the loophole through which foreign light trucks had been made available to U.S. consumers. Since then, anything but domestically produced light trucks has been a rare sight on American roads.

With a vast gap between the 25 percent duty imposed on trucks ("vehicles principally designed for the transport of goods") and the 2.5 percent duty on automobiles ("vehicles principally designed for the transport of persons"), import classification became a hotly contested issue. One major controversy involved the classification of multipurpose vehicles (MPVs), which include vans and sport utility vehicles (SUVs). Long-standing Customs practice had been to classify MPVs with back seats as vehicles for the transport of persons and those lacking back seats as vehicles for the transport of goods.

In 1989 Customs changed its practice and began classifying two-door SUVs as vehicles for the transport of goods and minivans and four-door SUVs as passenger vehicles. In 1994 the Court of Appeals for the Federal Circuit upheld a decision by the U.S. Court of International Trade that the Nissan Pathfinder, despite its two-door design, was a passenger vehicle and subject to the lower 2.5 percent duty.

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The effect of the court decisions was that the number of doors was no longer decisive in classifying a vehicle as truck or car. Instead, Customs was required to consider a variety of factors. Between the Customs classification decision in 1989 and the court ruling in 1994, U.S. auto producers and the United Auto Workers had "been demanding that all MPVs be reclassified as trucks, raising the tariff on these vehicles from 2.5 percent to 25 percent."[9] Such attempts were never successful.

Meanwhile, starting in the 1980s, Japanese auto producers moved to overcome the uncertainties of import classification and other protectionist threats with a surge of direct investment in U.S. auto production facilities. In 1982 Honda opened its first U.S. automobile production facility in Marysville, Ohio, producing its top seller Accords. Soon after came Nissan, Toyota, Mazda, Subaru, Isuzu, and Mitsubishi, as well as BMW and Mercedes-Benz. Today, 32 different foreign-nameplate automobiles and light trucks are produced in the United States.

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Furthermore, cross-border mergers and equity investments have made it difficult to tell which automakers are domestic and which are foreign. Chrysler has become DaimlerChrysler, with headquarters in Stuttgart, Germany, and Auburn Hills, Michigan, and a German, Jürgen Schrempp, as chairman of the board. Of the major Japanese automakers, only Toyota and Honda stand alone without American or European equity tie-ups. General Motors owns 49 percent of Isuzu, 20 percent of Fuji Heavy Industries (makers of Subaru), and 20 percent of Suzuki. Ford owns 33.4 percent of Mazda. DaimlerChrysler owns 37.3 percent of Mitsubishi; and Renault owns 44.4 percent of Nissan. Under those conditions, who is "us" and who is "them"?

The Tariff That Wouldn't Leave

After four decades, the truck tariff is a policy in search of a rationale. Certainly, the initial reason for the tariff—to retaliate against EEC chicken tariffs by hurting German exports of Volkswagen trucks—no longer exists. Volkswagen no longer produces pickup trucks. Neither does any other European producer—except, of course, DaimlerChrysler here in the United States.

If a "temporary" tariff becomes permanent, one might assume that it is serving some protectionist purpose, that it is shielding an import-sensitive industry from foreign competition. And, indeed, the 25 percent truck tariff does do a very good job of keeping out imports. Imports of trucks into the United States from all non-NAFTA countries have been virtually nonexistent for some time.[10] U.S. import data indicate that only 6,981 trucks (and chassis) subject to the 25 percent truck tariff entered the United States in 2002.[11] That is less than one-quarter of 1 percent of the almost 3 million light pickup trucks sold in the United States in 2001.

Of course, protectionism is hardly a recipe for good economic policy: it limits consumer choice, squelches competition, and misallocates resources. But the fact is that the truck tariff doesn't make sense even as protectionism. First of all, U.S.-based truck producers dominate the American market and thus have nothing to fear from foreign rivals. As Table 1 shows, the "Big Three" produced about 87 percent of light pickup trucks purchased in the United States in 2001; the Big Three produced slightly more than half of all cars purchased in the United States during 2001.[12] In 2001 the four top-selling pickup trucks were the Ford F-series (865,152 units), the Chevrolet Silverado (701,699), the Dodge Ram (344,538), and the Ford Ranger (272,460)—all products of the Big Three.[13] By contrast, consider the sales figures of the leading foreign-nameplate models: Toyota Tacoma, 161,983 units; Toyota Tundra, 108,863; Nissan Frontier, 89,434; Mazda, 26,131; Isuzu Hombre, a mere 115.[14]

Furthermore, the tariff is useless against the Big Three's major foreign rivals, since they already manufacture pickup trucks in the United States. Toyota produces the Tacoma in Fremont, California, and the Tundra in Princeton, Indiana. In addition, it recently announced plans to build a major new truck

Table 1
Volume of U.S.-Produced Light Pickup Truck Sales, U.S. Market 2001, by Model

Model	Units	Percentage of Total
Ford F-Series (Lt.)	865,152	29.97%
Chevy Silverado Pickup	701,699	24.31%
Dodge Ram	344,538	11.93%
Ford Ranger	272,460	9.44%
Chevy S-10	162,181	5.62%
Dodge Dakota	154,479	5.35%
Big Three Subtotal	2,500,509	86.61%
Toyota Tacoma	161,983	5.61%
Toyota Tundra	108,863	3.77%
Nissan Frontier	98,434	3.10%
Mazda Pickup	26,131	0.91%
Isuzu Hombre	115	0.00%
Japanese Subtotal	386,526	13.39%
Light Pickup Total	2,887,035	100%

Source: Compiled from data in *2002 Ward's Automotive Yearbook,* pp. 253, 254.

plant in San Antonio, Texas. Nissan manufactures the Frontier in Smyrna, Tennessee. Mazda, which is part owned by Ford, produces trucks in Edison, New Jersey. And until recent years, the Isuzu Hombre was manufactured by General Motors in Louisiana.

It can be argued that the high truck tariff helped to bring Japanese truck production (and its associated jobs) to the United States. But while the desire to gain and keep access to the U.S. market in the face of existing and threatened trade barriers doubtless played a role in Japanese automakers' decisions to invest in U.S. facilities, there are many other reasons for companies to build factories here. After all, BMW and Mercedes-Benz have made large investments in the United States in the absence of any trade tensions at all. Also, Japanese producers have continued to expand their investments here as U.S.-Japanese trade frictions have steadily diminished.

Meanwhile, regardless of why the major Japanese truck producers came to the United States, the fact is that they're here. If the tariff worked to bring them here, that job is done. Certainly, the tariff isn't needed to keep them here: companies are not going to abandon massive investments once they are made. Toyota, for example, has already sunk $1.6 billion into its Princeton, Indiana, plant and another $1.1 billion into its Fremont, California, facility; in addition, it has announced plans to invest $800 million in its new truck factory in San Antonio, Texas.[15] With respect to auto production, foreign investment in U.S. manufacturing facilities keeps mounting despite a relatively small tariff of 2.5 percent and the absence of any protectionist storm clouds on the horizon. In the same fashion, it is likely that foreign investment in U.S. light truck production would continue to increase regardless of the tariff rate.

Of course, there are foreign pickup truck producers that lack production facilities in the United States and thus are excluded from the U.S. market by the high tariff. Could eliminating the truck tariff result in a surge of imports from those currently excluded suppliers?

While the desire to gain and keep access to the U.S. market doubtless played a role in Japanese automakers' decisions to invest in U.S. facilities, there are many other reasons for companies to build factories here.

Considering that Toyota accounts for only 9.38 percent of light pickup truck sales in the United States, it would be farfetched to conclude that imports from the smaller Japanese truck producers could pose any significant competitive threat to the Big Three.

That would be great for consumers, but it's highly unlikely. In Japan Toyota is the predominant truck producer, accounting for more than a quarter of all trucks produced there. Mitsubishi, Suzuki, Daihatsu, Isuzu, and Fuji (Subaru) are the only significant Japanese truck makers without U.S. facilities, but the Japanese output of each of those producers amounts to less than half of Toyota's.[16] Considering that Toyota accounts for only 9.38 percent of light pickup truck sales in the United States (Table 1), it would be farfetched to conclude that imports from the smaller Japanese truck producers could pose any significant competitive threat to the Big Three.

Mitsubishi and Isuzu are the two largest Japanese truck producers that currently lack U.S. manufacturing facilities. Recall, however, that DaimlerChrysler owns 37.3 percent of Mitsubishi and GM owns 49 percent of Isuzu. It is difficult to imagine that exports from those companies would ever be allowed to threaten their largest shareholders.

Finally, there are no other countries whose producers are realistic sources of possible import competition. South Korean producers could ramp up pickup truck production, but Korean cars, after more than a decade, still account for only 5.3 percent of U.S. auto sales (as of 2001).[17] Given that fact, and given their overwhelming competitive strengths in the truck sector, the Big Three have little to fear from Korean truck imports. In addition, Hyundai recently announced plans to invest $1 billion in automobile manufacturing facilities in Alabama. If it did start experiencing success with pickup trucks in the U.S. market, it would likely shift production stateside.

The idea that removing the tariff will unleash a flood of cheap, imported trucks thus runs contrary to the facts. The strongest foreign truck producers already manufacture in the United States, which makes sense. In the highly competitive U.S. car and truck market, you need to make a big commitment—including investing in domestic production—if you are going to have any chance of doing well. Except with respect to specialty or certain luxury cars, imports serve to supplement U.S. production, not supplant it. All of the top 10 car models sold in the United States in 2001—whether American or foreign nameplate—were produced domestically.[18]

Although elimination of the 25 percent truck tariff would not result in any dramatic shakeup of the U.S. market, it would bring clear benefits. The high tariff limits competition and keeps smaller players out of the market. A virtual requirement to invest in U.S. production is an awfully steep hurdle for producers who want to evaluate whether they have a viable truck for U.S. consumers. A more sensible alternative, but for the tariff, would be to test and then develop the market through exports. Isuzu would like to introduce its DMAX pickup, which is produced in Thailand, to the U.S. market. But the tariff precludes that option. Investing in a U.S. plant is a high price to pay to test the viability of the DMAX. So, fighting the tariff will be the company's top trade priority in 2003, according to Terry Maloney, president of Isuzu Motors America.[19]

Conclusion

If the truck tariff has any justification at all, it is as a bargaining chip in trade negotiations. Under the mercantilist logic of such negotiations, countries make the "concession" of reducing their trade barriers in exchange for reciprocal "concessions" from their trading partners. According to that logic, the United States should hold on to the high truck tariff because it gives negotiators something with which to bargain.

The bargaining-chip argument, which has serious flaws even on its best days,[20] is especially weak in the case of the truck tariff. First of all, since the major foreign pickup truck producers already manufacture in the United States, there is not a particularly pressing demand abroad for the tariff's removal. In other words, an offer to remove the tariff is of limited commercial value and thus is unlikely to "buy" much in the way of reciprocal market-opening offers.

The truck tariff actually works to weaken the U.S. bargaining position by undermining the

credibility of overall U.S. trade policy. The fact that this relic of a long-ago trade dispute still survives, after four decades and three intervening multilateral trade rounds, is quite frankly an embarrassment. A tariff peak that is nearly 10 times higher than the average U.S. duty on industrial goods, and that has not budged for nearly 40 years, is jarringly inconsistent with the general U.S. commitment to open trade and ongoing reduction of trade barriers.

The truck tariff is all the more egregious because of the total absence of even a fig leaf of justification for its continued existence. Although sheltering an important but import-sensitive industry from foreign competition is certainly no justification for trade barriers on public policy grounds, it offers at least a political explanation. Here, though, no such explanation is possible, since U.S.-based truck production is extremely vibrant and not at all vulnerable to import pressure.

It is bad enough when the United States lectures other countries on the virtues of free trade—and on the need to accept the short-term dislocations of increased competition to secure its long-term benefits—while here at home industries vulnerable to foreign competition (for example, steel, textiles, sugar) are able to lobby successfully to keep markets closed. It's even worse, though, when, as in the case of the truck tariff, the United States clings to trade barriers even when no dislocation would have to be endured. The truck tariff sends a signal to the rest of the world that the United States is not fully serious about its own free-trade rhetoric and thus gives an opening for anti-reform politicians to resist U.S. market-opening pressure as hypocritical.

To its credit, the Bush administration has taken some encouraging, preliminary steps toward eliminating the truck tariff. In November 2002, U.S. Trade Representative Robert Zoellick unveiled a bold new proposal for eliminating all tariffs on all industrial goods around the world. That proposal, made in the context of the Doha Round of WTO talks, deserves warm praise and strong support from all who favor open markets. And among its many virtues, Zoellick's plan would entail the eventual elimination of the 25 percent truck tariff.

On that specific score, however, the boldness that generally characterizes the zero-tariff proposal is unfortunately lacking. Under the U.S. plan, tariffs at peak levels such as the truck tariff would be phased out gradually over a 10-year period. Since that period would begin to run only upon conclusion of the Doha Round, that means that the U.S. truck tariff would reach zero by 2015 at the earliest—assuming, optimistically, that the round concludes by its currently scheduled deadline of year-end 2004.

Long phase-out periods make some sense in the case of import-sensitive products. The gradual reduction of tariffs gives the domestic industry time to adjust to new competitive realities, thereby minimizing both the economic and the political fallout of sudden import surges and resulting dislocations. The truck tariff, however, does not protect an import-sensitive domestic industry. There is no foreseeable prospect of import surges or dislocations once that tariff is removed. Accordingly, the argument for proceeding slowly—and adding another dozen years to this anachronism's four-decade lifespan—makes no sense at all.

The truck tariff should be eliminated now, immediately and unilaterally. Failing that, the Bush administration should amend its zero-tariff proposal to provide for the immediate termination of the 25 percent truck tariff upon conclusion of the Doha Round. Such a move would underscore the seriousness of the U.S. commitment to a successful round and help to answer critics still aggrieved by the administration's earlier protectionist lapses on steel tariffs and farm subsidies. By ending the chicken war once and for all, the Bush administration could lend real momentum to a global market-opening effort, the benefits of which go far beyond increased choice in buying pickup trucks.

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Notes

1. Technically, Johnson authorized "suspension" of the benefits and concessions made pursuant to prior trade agreements, which took the form of an increase in tariffs.

2. Ross B. Talbot, *The Chicken War: An International Trade Conflict between the United States and the European Economic Community, 1961–64* (Ames: Iowa State University Press, 1978), p. 65.

3. "Tariff Classification of Multipurpose Passenger Vehicles—A Policy Discussion," briefing book prepared by the American International Automobile Dealers Association, the Association of International Automobile Manufacturers, and the National Automobile Dealers Association, 1992, p. 8.

4. Talbot, Table 6.2, p. 140; p. 154.

5 Article XXVIII of the General Agreement on Tariffs and Trade required that the suspension of concessions be made on a most favored nation basis meaning that concessions had to be suspended for all GATT signatories simultaneously.

6. Talbot, p. 118.

7. Ibid., p. 122.

8. "Tariff Classification of Multipurpose Passenger Vehicles," p. 9.

9. Ibid., p. 1.

10. Imports from NAFTA partners Canada and Mexico are duty-free, provided the trucks meet NAFTA rules of origin (i.e., that they are produced in one of the NAFTA countries).

11. U.S. Department of Commerce, Bureau of the Census, IM145 series, compilation of tariff items subject to 25 percent truck tariff.

12. *2002 Ward's Automotive Yearbook,* p. 119.

13. Ibid., p. 212

14. Ibid., p. 254

15. Investment figures are available at www.toyota.com. Note that Toyota's Indiana and California facilities produce automobiles, minivans, and SUVs as well as light trucks.

16. These production figures relate to all trucks, not just the light trucks covered by the 25 percent tariff.

17. *2002 Ward's,* p. 242.

18. See ibid., p. 212, for top 10 sellers; p. 20 for place of production.

19. Lindsay Chappell, "Isuzu Changes Its Plans for Future Products," *Automotive News,* February 10, 2003.

20. See Brink Lindsey, "Free Trade from the Bottom Up," *Cato Journal* 19, no. 3 (Winter 2000): 359.

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