

U.S. may end truck tariff to open up global trade

Axing 50-year tariff would be to court automaker giant Japan

By: Karl Henkel – August 5, 2013

A 50-year tariff on light trucks continues to contribute to rising pickup prices in the U.S. and exists largely as a bartering chip for American automakers seeking to crack new global markets.

Japan-based Toyota Motor Corp., Nissan Motor Co. and Honda Motor Co. build trucks for the U.S. market on U.S. soil. None is imported from Japan, so none is subject to the 25 percent tariff. Of the 1.9 million pickups sold in the U.S. last year, only about 200 — mostly specialty orders — were hit with the import tax.

But the tariff, enacted in 1963, is not without impact. Some industry experts believe American consumers are paying thousands extra for pickup trucks because of a lack of true market competition.

By tamping down foreign truckmakers, they say, the tariff has led indirectly to higher truck prices, which have inflated at more than twice the rate of all new vehicle prices in the past nine years.

And the domestic makers that commandeer 83 percent of the pickup market — Ford Motor Co., General Motors Co. and Chrysler Group LLC — have a further cushion due to fierce brand loyalty by their truck owners.

Alec Gutierrez, a senior analyst at vehicle pricing website Kelley Blue Book, says an estimated 70 to 75 percent of pickup owners — triple the industry average for all vehicles — are brand-loyal, meaning they stick with the same manufacturer for their next vehicle purchase. Even when the Big Three upgrade their pickups, the market share doesn't shift significantly.

Japan has joined negotiations for a proposed free-trade agreement with the U.S. and 10 other countries known as the Trans-Pacific Partnership. But the U.S. truck tariff will remain in place if Japan doesn't agree to open its market and remove trade barriers that discriminate against the U.S.

“The automakers see it as some leverage to getting other countries to open up their markets,” said Daniel Ikenson, director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.

“The tariff doesn't seem to make any sense now, particularly since the industry has globalized, or at least regionalized, but this is what happens with transfer programs, with protectionism, with social safety nets.”

Japan is virtually closed to U.S. automakers, and without the truck tariff, they'd have no leverage in free-trade talks. But now, the U.S. is using the tariff as a key bargaining chip to possibly gain entry into Japan, currently the third-largest auto market in the world.

Japan's participation in TPP negotiations had been met with heavy resistance by the American Automotive Policy Council, a trade group whose members include Ford, GM and Chrysler.

Matt Blunt, president of the AAPC, said that the eventual abolishment of the U.S. truck tariff is on the table only if Japan opens its auto market. Blunt said the tariff could last another "25 or 30 years."

Recent truck price inflation

Pickup sales have increased at nearly triple the rate of all new U.S. vehicle sales this year and account for about 13.9 percent of all new purchases in 2013.

GM and Chrysler recently introduced new versions of their pickups; Ford, the pickup sales leader, will follow with a new truck next year.

The average selling price of full-size pickups has grown at more than twice the rate of the overall industry — cars and trucks combined — since 2005. The average truck sells for more than \$40,000, nearly \$9,000 more than the average vehicle, according to automotive research firm Edmunds.com. Automakers in recent years have added more luxury items to pickup trucks — and cars, too — so it's difficult to pinpoint how much an uncompetitive market can be attributed to price.

But Jesse Toprak, an analyst for vehicle pricing website TrueCar.com, said in a telephone interview that weak competition in the truck segment results in a "couple-thousand-dollar premium" paid by consumers.

"All indications today show that there is going to be continued upward pressure on truck prices due to lack of competition and increasing demand," Toprak said. "And even between the Big Three, there's not a whole lot of competition because of brand loyalty."

John Krafcik is chief executive of Hyundai Motor America. Hyundai's U.S. market share has doubled in the last nine years, based solely on car and SUV sales. Hyundai does not sell a pickup.

"If you look at the number of competitors in the midsize car or compact car segments, where there's lots of healthy competition from lots of different companies and countries, you might find 15 or 20 brands fighting for consumers," Krafcik said, noting the lack of competition in the pickup segment. "There's less pricing pressure, for sure."

Krafcik said Hyundai won't import a pickup as long as a large tariff exists.

Under a separate free-trade agreement with the U.S., a 25-percent tariff on potential Korean-built pickups will be completely phased out by 2021.

Hard to beat Detroit trucks

At first glance, abolishing the 25-percent tariff would seem to be a boon to foreign automakers. But some believe Detroit automakers, which have owned the pickup truck market for decades, could remain dominant forces in the truck market even if the tax is lowered or abolished.

“My view is that absolutely they could,” David Cole, chairman emeritus of the Center for Automotive Research, said in a telephone interview. “When you look at the tariffs today, the full-size pickup truck is the gold standard here and not many other places in the world,” David Cole, chairman emeritus of the Center for Automotive Research, said in a telephone interview.

Cole believes that even with a reduced tariff or no tariff at all, those who aren’t making pickup trucks would struggle to justify adding them to their lineups because the demand for those trucks comes almost exclusively from the U.S. market. And fellow truck makers Toyota, Nissan and Honda likely would not find it cost-effective to build trucks in their home Japanese market because of their relatively low volume compared to the entire global vehicle fleet.

Michelle Krebs, senior analyst at Edmunds.com, said even if other competitors stepped up, Detroit would continue to dominate the U.S. pickup truck market.

“The simple fact of the matter is, Detroit reigns supreme when it comes to trucks,” she said. “When it seemed like Toyota was going to take over with its trucks, they didn’t make a dent. And in the current truck boom, Nissan’s Titan sales are down.”