



New Mercedes Sprinter Plant Will Skirt Costly Chicken Tax

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By the time a new Mercedes-Benz Sprinter cargo van reaches its owner, the vehicle has already been built, taken apart, shipped in pieces and finally reassembled.

Mercedes builds Sprinter passenger vans and cargo vans side-by-side in Dusseldorf, Germany. Before shipping them to the United States, however, Mercedes separates the cargo vans and removes the drivetrain and other mechanical components. All of the vans are then shipped to the United States, where the cargo vans are painstakingly reassembled in the company's Landon, S.C., plant.

The reasoning behind this costly and time-consuming breakdown is an old trade tariff known as the chicken tax.

In 1963, the U.S. and the European Economic Community nations entered into a trade war. Europe slapped tariffs on U.S. chicken exports, and the U.S. retaliated with a 25 percent tariff on imported trucks and vans. At the time, the U.S. auto industry was worried about Volkswagen, whose tiny Beetle sedan proved that American consumers would purchase foreign-built vehicles, said Daniel Ikenson, an economist and trade expert at the Cato Institute.

Most other tariffs resulting from the trade battle disappeared over the last 50 years, he said, but the so-called chicken tax remains.

“They have to be built [in Germany], then they get disassembled, we ship them over, they get reassembled,” said Mathias Geisen, a general manager of Mercedes-Benz Vans. “It takes really quite a while until those vans reach the customer.”

Breaking down the vans allows Mercedes to bypass the tariff, but there is an associated cost of extra manpower and lost time. The automaker's challenge is to make sure that the cost of labor and wasted equipment such as passenger seats is still low enough to make a profit.

The cost of this process is passed along to consumers, said Dave Sullivan, manager of product analysis at AutoPacific. He estimates close to \$1,000 is added to the price of each Sprinter cargo van, which are priced from \$36,495.

The trade barrier is why Toyota now builds Tundra pickups in Texas and Nissan produces Titan trucks in Mississippi.

Mercedes will soon follow that formula. The company has broken ground on a \$500-million production facility in South Carolina that will build Sprinters on U.S. soil. Geisen said that building the vans where they're sold will allow Mercedes to supply hungry markets more quickly, and work directly with engineers, upfitters and customization shops to ensure quality builds.

Of course, it will also allow Mercedes to stop the reassembly practice.

There have been several attempts to eliminate the chicken tax. Opponents argue that it has allowed American automakers to remain stagnant, charging higher prices for trucks without outside competition.

The tariff has affected the Detroit Three, as well: The Ford Transit Connect is built in Spain; the Ram ProMaster City is made in Turkey. Both companies jump through the same hoops as Mercedes in order to bring their vans to the U.S. In 2013, Ford ran afoul of U.S. Customs over its attempts to bypass the tariff.

The Trans-Pacific Partnership trade deal signed by President Barack Obama in 2016 would have phased out the chicken tax over the course of 30 years.

That effort proved fruitless. In January, President Donald Trump signed an executive order withdrawing the United States from the TPP.

At the moment, there is no formal effort to repeal the chicken tax. Auto companies have avoided bringing their trucks and vans to the U.S. to avoid paying the duty, Sullivan said. Hyundai and Volkswagen are simply not willing to jump through such hoops, or build domestic facilities.

When it comes to the chicken tax, Mercedes is the rare commercial van builder that has opted to set up permanent shop.

“If anything, it’s really kept some of the competition out,” he said.