Who Really Benefits From Auto Tariffs?

Following the release of the "Section 232" national security report in mid-February, additional tariffs on cars are hanging over the transatlantic relationship like a Damocles Sword. To state the obvious, car exports from the European Union or any other region do not pose a national security threat to the United States. Instead, they are merely a proxy, albeit an important one, for the broader trade imbalances that the US administration wants to tackle. In 2018, the US ran a merchandise trade deficit with the EU of USD 169bn, significantly larger than the USD 101bn deficit that it has with its two neighbors, Canada and Mexico. The biggest 'culprit' is, of course, Germany, with whom the US has its third-largest bilateral trade deficit (after China and Mexico). But Ireland (5th) and Italy (7th) are among the top-ten deficit countries as well.

If one just focuses on the headlines, one may easily get the impression that these trade deficits are primarily the result of the US being treated unfairly by the EU through higher tariffs. The facts, however, speak a different language: According to the World Trade Organization, EU exports of non-agricultural goods to the US face a weighted-average tariff of 1.6%, while US exports of those goods to the EU face a weighted-average duty of 1.4%. In other words, tariff rates between the regions are low and there is not much of a difference on aggregate. If anything, the EU has a slight disadvantage here.

What about cars? It is true that the EU duty on car imports from the US is 10%, while the US duty on European car imports is only 2.5%. This observation, however, ignores non-tariff barriers, i.e. technical standards, regulations, and testing procedures, etc., which are higher in the US than in the EU. As important, it leaves out the so-called light trucks, which comprise pickup trucks, minivans and SUVs. For those vehicles, the EU duty is also 10%, while the US imposes a steep 25% tariff. In case you wonder: this is the relic from the 1960s Chicken War between the US and various European countries. Given that light trucks now account for a whopping 70% of all motor vehicle sales in the US, the hypothetical weighted-average tariff for EU motor vehicle exports to the US is 18¼%, compared to a 10% duty for US auto exports to the EU.

This 25% 'Chicken Tax' explains why a growing number of foreign carmakers produce their SUVs and pickup trucks in the US. It is also the reason why you cannot buy a VW Bus here in the US. And finally, the shielding from foreign competition allows US carmakers to demand larger profit margins on those vehicles. It is thus a main contributor to the annual results of these companies.

In a nutshell: tariffs (as well as non-tariff barriers) on motor vehicles have been beneficial to the US auto industry. If one talks about eliminating duties in this sector, one, of course, needs to incorporate light trucks. And this is exactly what the European Commissioner for Trade proposed last summer, i.e., that the EU is "willing to bring down even our car tariffs to zero, all tariffs to zero if the US does the same." But back then, President Trump rejected the offer as "not good enough", adding that European "consumer habits are to buy their cars, not to buy our cars." After looking at some facts, one can safely say that those 'habits' are not driven by tariff. ■

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