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Auto Group Strongly Urges US To Stand Firm on Duty Increase

By JENNIFER FRIEDLAND
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WASHINGTON — An organization representing U.S. automobile manufacturers released Monday an updated and stronger plea to the government to "stand firm" on its Jan. 4 decision to increase the duty by tenfold on light trucks, vans and sport utility vehicles.

Executives of the Big Three automotive companies also offered further support of the U.S. Customs Service decision, which the U.S. Treasury Department is now reviewing.

"The Customs Service's decision closed a loophole which importers had been using at ports of entry in the U.S. to manipulate the system to their advantage," said Thomas Hanna, president of the Motor Vehicles Manufacturers Association.

"The problem became absurd last year when importer began to declare for tariff purposes their sports utility vehicles and vans as cars one day, as trucks, and on the third day as cars again, " he added.

Mr. Hanna charged that this change in classification was a way that the Japanese could get around the voluntary restraint agreements that limits the number of vehicles a Japanese company can export to the United States.

This charge is stronger than the one issued by the association on Jan. 17, which said that importers with tariff classification of their vehicles for "commercial purposes."

The American International Automobile Dealers Association, one of the groups that is fighting the Customs Service's decision, was expected to file another brief late Monday with the Treasury Department.

The international auto dealers association, which represents importers, met with Treasury Jan. 16 to protest the ruling, which has been temporarily suspended by that department pending further review.

The international dealers association is arguing that the Customs decision is "arbitrary, capricious and illegal" primarily because it does not properly classify the vehicles under the new Harmonized Tariff System adopted Jan. 1, 1989.

Customs had held several meeting prior to the Jan 4. meeting with both importers and the domestic car manufacturers about the proper classification of these vehicles.

But Bart S. Fisher, counsel for the American International Automobile Dealers Association, argues that it was "confronted overnight with a tenfold tariff increase, without notice or opportunity to comment."

Government officials from Japan, West Germany and Great Britain, the main countries affected by the reclassification, have also expressed their dissatisfaction with Treasury officials.

The Motor Vehicle Manufacturers Association urges the government not to give in to the foreign demands for change.

"Importers are now trying to make an end run around the legal process by pressuring the administration through their lobbyists and their governments to overturn the proper U.S. Customs decision," Mr. Hanna said.

Chrysler Corp. Chairman Lee Iacocca, Ford Motor Co. Vice Chairman Harold A. Poling and General Motors Corp. Chairman Roger B. Smith also argue that the vehicles should be classified as trucks.

"The vehicles in question are trucks. They were developed and manufactured as trucks. And they have been designed to meet federal regulations for safety, emissions control and fuel economy as trucks," Mr. Smith said.

"For these reasons, we strongly believe the Customs Service should classify the vehicles as trucks, rather than on the cosmetic vehicle features which can easily be changed by the importer," he added.

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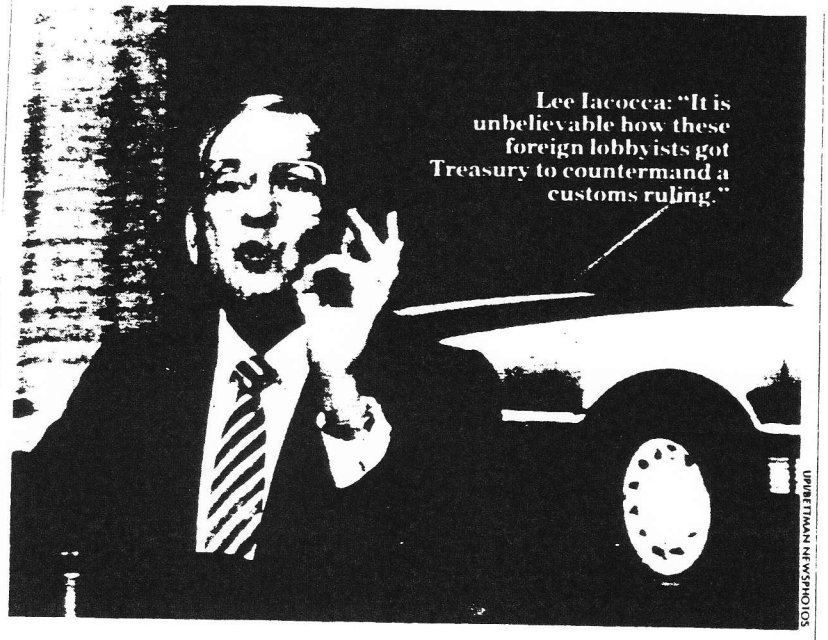

UPI/BETTMAN NEWSPHOTOS

Lee Iacocca's Bumpy Truck Ride

Foreign-Car Lobby Outmanned Detroit Over Tariffs

BY GREG RUSHFORD

Lee Iacocca thought he had stopped his foreign competition dead in the water.

In response to persistent appeals from Iacocca's Chrysler Corp. and other domestic automakers, the U.S. Customs Service announced on Jan. 4 an immediate 1,000-percent tariff increase on all sports-utility vehicles and minivans. Startled importers had to scramble to post millions of dollars in bonds before the sporty vehicles—then *en route* from Europe and Japan—could be unloaded at U.S. ports.

"I was just thunderstruck," recalls Robert McElwaine, president of the American International Automobile Dealers Association. "It was a mystery to us how that happened."

But now it is Iacocca and the Detroit auto establishment who are fuming. Just six weeks after the Customs Service handed Detroit its victory, the Treasury Department, which oversees Customs, countermanded the decision. Thanks to a vigorous grass-roots campaign orchestrated by McElwaine, coupled with substantial pressure from affected foreign governments, vehicles like Great Britain's Range Rover, West Germany's Volkswagen Vanagon, and Japan's Mitsubishi Montero will not carry the higher tariffs.

Laments Iacocca: "It is unbelievable how these foreign lobbyists got Treasury to countermand a customs ruling."

Indeed, the Treasury's Feb. 16 reversal of the customs decision was a rarity. But

Treasury Leaves Foreign Automakers in the Driver's Seat

BUMPY RIDE FROM PAGE 1

In many ways, Detroit's battle with "foreign lobbyists" over the sporty vehicles is a classic study of a big-money international trade row.

The showdown developed slowly over two years, as a small group of lawyers and lobbyists sparred over technicalities. Only later did the issues emerge from the bureaucratic trenches and command the attention of top officials of several governments.

"It started with a few drops," recalls Stephen Collins, the Washington-based director of economic and international affairs for the Motor Vehicle Manufacturers Association. "It became an average rainstorm, and eventually turned into a hurricane."

The Customs Service is not normally a player in trade policy. Its Jan. 4 rate hike was couched in the dry, technical language of tariff schedules, in which the vehicles were simply reclassified from "cars" to "trucks," thus raising the duty on them from 2.5 percent to 25 percent.

"This was our strategy—to talk tariffs, not politics," says one U.S. auto lobbyist, who notes that the Customs Service was also pressed by Detroit's friends in Congress. "We didn't think the foreign competition would appeal to [Treasury Secretary Nicholas] Brady and turn the issue into a political contest and a matter between governments."

But that is exactly what the foreign competition, and its domestic allies, did. The technical customs ruling became the first major trade policy test for the new Bush administration. In the weeks following the customs ruling, Brady heard from the likes of Great Britain's chancellor of the exchequer, West Germany's finance minister, and Japan's ambassador to the United States.

"This was a case where the Europeans and the Japanese made common cause," says Lewis Leibowitz, a partner in D.C.'s Hogan & Hartson, who represents Toyota Motor Sales U.S.A.

SUSAN MINIAK

Thomas Boggs Jr.'s lobbying for importers incensed Chrysler officials.

Enter Patton, Boggs

Brady was also lobbied on behalf of the American International Automobile Dealers by Thomas Boggs Jr. of D.C.'s Patton, Boggs & Blow, and by Bart Fisher, who heads Patton, Boggs' international trade practice.

Boggs and Fisher argued that the rate increase would cost American consumers more than $2 billion annually in higher automobile prices. Chrysler, General Motors, and the Ford Motor Co., Boggs and Fisher contended in a brief, were "seeking to impose the first major tax increase of 1989 on the American consumer, while forcing job losses and lost profits on the imported automobile industry."

Some Chrysler officials were incensed with Boggs' advocacy for the car importers. Since 1979, when he helped finesse the $1.2 billion Chrysler bailout, Boggs occasionally has done work for the automaker.

Chrysler abruptly informed Boggs that he would no longer be doing any work for Chrysler, according to McElwaine of the dealers' association, Boggs' client on the tariff issue.

Another source close to Chrysler says Boggs was fired, not by Iacocca but by Robert Perkins, Chrysler's vice president for Washington affairs. The source describes the episode as a "momentary flare-up that illustrates how passionately this battle was fought." Perkins and Boggs decline comment, but others who have talked to Perkins indicate that Iacocca intends to rehire the firm.

SUSAN MINIAK

The tariff hike would have added as much as $8,000 to the $36,000 price of the British Range Rover.

The customs holding that foreign jeep-like vehicles and minivans would be classified as trucks—and be taxed at a much higher rate—was a huge windfall for domestic automakers.

In fact, Iacocca went so far as to boast, in a telex to Chrysler dealers, that the cus-

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toms ruling "translates to a $2,000 per truck penalty to your competitors." Iacocca also estimated that the tariff hike would raise at least $500 million for the U.S. Treasury.

The stakes for the importers were also huge. William Baker, director of corporate communications for the Lanham, Md.-based Range Rover of North America Inc., says the tariff increase would have added from $6,000 to $8,000 to the $36,000 price tag of the British vehicle.

"It would have seriously impacted our dealers' business," says Baker.

Philip Hutchinson Jr., a D.C.-based vice president of Volkswagen of America Inc., told Treasury officials that his firm's Vanagon had been classified as a car, not a truck, for 25 years.

"This would have driven us completely out of the van market," Hutchinson says.

Also active in the lobbying campaign was Suzuki of America Inc., whose battery of advocates included John Rehm, a partner in D.C.'s Dorsey & Whitney; James Lake of Robinson, Lake, Lerer & Montgomery; and Robert Thompson of Thompson and Co. Suzuki's lobbying is continuing, since Treasury let stand the customs finding that Suzuki's two-door Samurai is indeed a truck.

Meanwhile, McElwaine had his members flood the Treasury Department and Capitol Hill with thousands of letters.

"Because the vehicles in question account for about 30 percent of our members' profits, they were quite willing to pitch in politically," says McElwaine, who explains that his group has 9,400 members, representing 300,000 jobs.

McElwaine's lobbying efforts were boosted when one of his dealers (who also sells Chryslers) sent him Iacocca's telex bragging about the penalty imposed by the tariff on foreign-car dealers.

Quoting the telex on talk shows, in meetings with editorial writers, and in letters to Congress, McElwaine portrayed the missive as confirmation that the customs ruling was merely a favor for the U.S. auto industry, which has enjoyed big profits in recent years.

Robert McElwaine's best tool in lobbying for importers was ridicule.

"McElwaine's use of that telex was quite damaging to our side because it helped him define the issue in pro-consumer terms," concedes one Detroit lobbyist.

The most devastating weapon in McElwaine's arsenal, in the words of a senior British official, was "the effective use of sheer ridicule" over the notion that vehicles clearly designed for passengers were suddenly considered to be trucks.

"Who in his right mind," the official says, "would say that people would pay $36,000 to buy a fully loaded luxury Range Rover to haul pigs to market?"

The ridicule masks a more complex set of facts, according to customs officials and U.S. industry spokesmen. A senior customs official involved in the Jan. 4 adopting the tariff [illegible]

Stephen Collins, who pressed the issue at the Customs Service for the Motor Vehicle Manufacturers Association, notes that trucks were excluded from Japan's 1981 voluntary agreement to limit their U.S. exports to 2.3 million cars.

"We found a pattern, whereby companies like Toyota and Suzuki declared some of their products cars one day and trucks the next in order to circumvent the quotas," he relates.

Collins also points out that the Transportation Department and the Environmental Protection Agency classify the vehicles as trucks.

While foreign auto manufacturers and U.S. importers acted in unison to press their case, Detroit's lobby could not mount an effective counteroffensive.

"There was really no group of master strategists from Detroit sitting around planning major trade policy," maintains industry spokesman Collins. "The Customs Service had asked us for our technical comments. We submitted them. We played it straight and, I believe, the other side played politics."

Iacocca says that, in contrast to the arm-twisting employed by his adversaries, he did not personally take his case to U.S. officials after the Customs Service ruled his way. He did sign a joint letter to Brady urging the treasury secretary to let the customs finding stand. Donald Petersen, president of Ford; Roger Smith, chairman of General Motors; and Thomas Hanna, president of the Motor Vehicle Manufacturers Association, also signed the Jan. 16 letter to Brady.

Iacocca says he did not think it necessary to lobby Brady and high Bush administration officials personally to keep the customs finding intact.

"Well, I'm not clairvoyant," says Iacocca. "I didn't know they would be so dumb." □