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"Market developments and future perspectives in the automotive sector"

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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I would begin by thanking Mr Creutzig and the European Council for Motor Trades and Repairs - CECRA - for inviting me to speak here today. I am also glad to see so many representatives from other groups with key stakes in the automotive sector, including consumers, dealers, repairers, parts suppliers and vehicle manufacturers.

Open competition in our European internal market brings many benefits. It helps European companies learn to compete and win at global scale. It drives businesses to deliver innovative products and services. It increases consumer choice whilst pushing prices down. The automotive sector is no exception. And given that car purchase and maintenance are among the more significant outgoings in the budget of the average European family, it is self-evident that motor vehicle distribution and repair are questions of crucial interest to European consumers.

For seventeen years, the sector was governed by specific – and rigid – rules. In response to a series of shortcomings identified during this period, in 2002 the Commission adopted Regulation 1400/2002. The new instrument introduced a number of substantial changes as regards the block exemption of distribution agreements for motor vehicles and spare parts, as well as the rules for authorised and independent repairers. In short, Regulation 1400/2002 introduced more flexibility whilst introducing tough new elements designed to promote a better competitive environment.

The Regulation is now halfway through its life, and it is therefore an appropriate point to examine how things have worked out. I would like to use this opportunity today to look at developments over the past four years both as concerns distribution and in relation to after-sales. I will conclude with a few thoughts on the future challenges facing the industry and the European Commission, as we continue to enforce EC competition law in this dynamic sector.

A more competitive market for new motor vehicles

Turning firstly to the distribution side. As the recent study carried out for the Commission by London Economics¹ illustrates, major changes have occurred in the market for new motor vehicles over the past four years. Firstly, while car manufacturing is still a relatively highly concentrated industry, since 1997 it has gradually become less so. Vehicle manufacturers' operating margins and profitability ratios remain low. And contrary to what many forecast back in 2002, car prices have risen more slowly than headline inflation since the Regulation came into force. Finally, although dealer networks have been re-organised to cope with increased inter-brand competition, the resulting distribution structures are more efficient. Overall, therefore, consumers seem to have benefited from the reform.

Of course it is tempting to put all of this increased competition on the supply side down to the block exemption. But I am the first to recognise that other factors such as manufacturing over-capacity, technological innovation and closer integration of global markets have also played a major role in delivering a more competitive environment.

¹ The study looks at competitive developments in the motor vehicle sector over the period from 1997 to 2004 with a particular emphasis on changes since block exemption came into force. It was published on DG Competition's website in July, and all stakeholders have been invited to submit their comments by the end of October.

It is nevertheless clear that the block exemption has made its contribution. The Regulation tackled two main issues as regards car distribution. Firstly, it removed certain kinds of territorial restraints to let consumers fully benefit from the Single Market. Secondly, it contained measures to encourage the development of innovative distribution formats.

Allowing consumers to reap the full benefits of the Single Market

As to the first aim, the Regulation provided that manufacturers using selective distribution systems had to permit their dealers to sell actively all over the EU. As well as improving competition between dealers, this also reflected the Commission's wider aim of making the Single Market a reality for the benefit of all EU consumers – in this case by making cross-border purchase of vehicles significantly easier.

I am therefore pleased to note that since 2002, the number of complaints we have received alleging restrictions on parallel trade has fallen sharply. That is good news and suggests that the Regulation may well have encouraged manufacturers to improve their track record in this respect. Moreover, price differentials between Member States have gradually converged.

Some signs of innovation in car retailing

The Regulation's second distribution-related aim was to encourage innovative forms of retailing. The new regime builds in more flexibility than its predecessor, allowing a range of alternative and innovative distribution systems to be set up.

So far, however, no major manufacturer has taken up the flexibility offered as regards alternative distribution formats, and all remain anchored to their traditional distribution systems. .

Instead, manufacturers have responded to increased inter-brand competition by seeking to increasingly distinguish their products and services from those of their rivals. I have some sympathy with those who complain about stricter and more costly requirements for dealers. But this is a commercial issue, and Articles 81 and 82 of the Treaty do not give the Commission powers to iron out the inequalities in bargaining power between contracting parties. In the competition context, dealer standards are only of concern when they obstruct the implementation of provisions intended to increase competition, such as those on multi-branding.

Multi-branding is an innovative format that is increasingly popular among dealers: the proportion of multi-brand dealerships increased from 11% to 17% between 2002 and 2004. But at the same time we received a number of complaints that certain contractual standards made it difficult for dealers to use their existing facilities for selling brands of competing manufacturers. We took this matter seriously, and investigated complaints against GM and BMW, not only resolving the individual cases concerned, but also clarifying our approach on this issue, sending out a clear message to other firms and national competition authorities. I don't think there can now be any doubt about how we view over-rigid application of sales targets and corporate identity standards to multi-brand dealerships, or the way in which equivalent generic equipment should be accepted when a dealer takes on an extra brand.

Overall, as far as vehicle sales are concerned, one can conclude that competitive conditions have generally improved since 2002, retail prices have declined in real – even if not in absolute - terms, and there are some signs of more innovation, which enhances consumer choice.

Mixed results on the after-markets

I'd now like to take a look at how things have developed on the after-market. The Commission's aim in this area was to create the right competitive conditions for repairers to respond to consumer demand. Our approach was three-fold:

- firstly, to encourage competition within the authorised networks;
- secondly, to remove barriers to effective competition from the independent sector; and
- thirdly, to prevent foreclosure on the spare parts markets.

Improved conditions for access to authorised repair networks

As regards the first objective – better access to authorised repair networks - it is important to recall that during the first few years of car ownership, consumers are to a large extent captive to the manufacturer's network. That is why it was so crucial to enable market forces to determine the density of the authorised repair networks, and the location of repair outlets, in accordance with local demand. Consumers simply will not travel tens of kilometres to have their vehicles repaired!

In order to help get the market working here, Regulation 1400/2002 allows authorised repairers to concentrate on after-sales services, without having to sell new vehicles. Moreover, as long as a repairer meets the manufacturer's quality criteria, it has to be allowed into selective systems – quantitative thresholds are no longer tolerated.

The London Economics study has shown that the block exemption has had real success in this area. While the number of authorised repair partners in the twelve Member States under study fell from 43,000 to 40,000 from 1997 to 2002, the figure had rebounded sharply to 50,000 by 2004.

But that does not mean that everything is perfect. I come back to the complaints we investigated against GM and BMW, in which we looked carefully at their EU-wide agreements for authorised repairers. In our subsequent decisions we clarified when certain contractual requirements go beyond what is objectively necessary in the context of a qualitative selective distribution system, and we emphasised that equivalent generic tools and equipment should be accepted to enable repairers to work on cars of competing brands.

Independent repairers are still in decline

While competition between authorised repairers is important, the block exemption also aimed at ensuring that independent repairers can also operate on a level playing field. Such operators often provide consumers with alternative formats, and have different cost structures, and different purchasing patterns as regards spare parts.

However, independents can only compete if they get adequate access to the brand-specific technical information needed to repair today's sophisticated vehicles. The Regulation therefore made clear that vehicle manufacturers are seriously restricting competition if they withhold any technical information necessary to repair motor vehicles.

Despite these provisions, a study produced for the European Commission by the Institut für Kraftfahrwesen Aachen in 2004 found that many manufacturers' arrangements for providing technical information were flawed. Our subsequent investigations against four manufacturers have confirmed real problems: too little information is provided and it is too hard to access. We are now discussing possible solutions with the manufacturers concerned. Again, these cases should act as an important signal for the whole sector.

As with all areas of the block exemption, our role here is not to preserve out-of-date business models, but rather to let the market do its work. The investment levels needed to cope with several brands of highly sophisticated vehicles may well mean that the days of the one-man repair shop on the corner are numbered. Nevertheless, who survives and who does not should be determined by market forces, and not by artificial restrictions. And let's not forget that consumers will not want to buy cars that cannot be safely and reliably repaired at competitive prices in a wide range of outlets.

Spare parts distribution – vehicle manufacturers are still the main players

As regards the third policy objective of the block exemption, relating to the spare parts markets, I must admit that things have not panned out as the Commission hoped back in 2002. We wanted to ensure that consumers and repairers had a choice between spare parts of different brands, without compromising quality or safety. To this end, authorised repairers were to be allowed to purchase alternative original and matching quality brands of parts. Spare parts manufacturers were permitted to supply the after-market under their own brand names.

In practice, however, authorised repairers still obtain between 87 and 95% of their spare parts from vehicle manufacturers. On the supply side little has changed either. Spare parts manufacturers have not greatly expanded their aftermarket operations, perhaps because they fear that this would jeopardise their long-term dealings with vehicle manufacturers. Meanwhile, imports from outside the EU have brought fresh competitive pressure, but have also raised quality and safety concerns. The Commission has this issue under review in the context of the revision of Type Approval Directive 70/156/EC.

Conclusions - future challenges

In sum therefore, the overall competitive environment in the motor vehicle sales markets seems to have improved. On the distribution side, while not all parties have wholly embraced innovation, multi-branding seems to be on the increase. As regards the evolution of the after-sales sector, the block exemption seems to have some degree of success in facilitating access to the authorised repair networks, but independent repairers are still not getting all the technical information that they need. Finally, operators on the spare parts markets are not yet responding to the opportunities offered by the new rules.

At this mid-term stage, operators are naturally looking forward to 2010, when the current block exemption expires. Unfortunately, I don't have a crystal ball, and it's far too early to say what rules will apply in four years' time.

In 2008, the Commission will publish an evaluation report on the block exemption, on the basis an extensive fact-finding exercise that will take into account your views, and our own experience, as well as the results of the London Economics study. By that stage, we should also be able to see the effect of last year's change regarding the use of location clauses in selective distribution agreements. The publication of our report will be followed by wide public consultation, to which I hope and trust that many of you in this room will contribute.

In the meantime, where there is evidence that vehicle manufacturers or other operators are trying to distort competition to their own ends, the European Commission will continue to ensure compliance with the competition rules. I am also pleased to note that competition authorities in many Member States have also been active in this field, and that national courts have ruled on many important points.

And in addition to ongoing careful monitoring of distribution, the Commission will continue to study developments in other parts of the automotive sector, such as co-operation and alliances between carmakers, and further upstream in the component supply markets. When doing so, we look to our own broader priorities, which include the pursuit of cartels, and cases involving abuses of dominance.

Ladies and gentlemen, the next few years will see challenges for all of us. The merger wave currently affecting other sectors is unlikely to leave this one untouched, whilst we will probably see more new entrants over the next few years. The European Commission is not blind to all of these changes. The CARS 21 initiative piloted by my colleague Günter Verheugen demonstrates the Commission's commitment to the continued competitiveness of the automotive sector whilst sustaining further progress in safety and environmental performance at a price which consumers can afford. As a next step the Commission will present a Communication setting out a series of concrete actions. But in the meantime, let there be no doubt: we will also not hesitate to use all of the competition policy tools at our disposal to ensure that competition in this sector remains free and fair.