4 The United Kingdom market for cars

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Introduction

4.1. The first section of Chapter 3 sets out the international background to the industry. Cars are produced in many countries of the world and trade is substantial, principally between the countries of Europe, from Japan to Europe or the United States, and from the major centres of car production to countries of the Third World. Many car-producing companies are major multinationals that produce in more than one country and sell their products in several. Almost 36 million cars were produced globally in 1990.

4.2. Around 37 per cent of total world production takes place in the EC. As exports from the EC are slightly larger in volume than imports, EC sales, at about 12.2 million units in 1990, are a little less than production, at 13.2 million units.

4.3. There are, however, reasons for considering the United Kingdom market separately-as we do in this chapter. Car manufacturers organise their distribution and sales systems on a national basis. The cars that are sold in the United Kingdom are by and large not the same in terms of detailed specification as those sold elsewhere; though the United Kingdom is not unique in this respect (as described later in Chapter 8)

there are features of the United Kingdom market that distinguish it from most others in the EC (for example, the requirement for cars that are RHD).

4.4. This chapter is principally concerned with the structure of the market, broken down by segment, by type of customer, and by supplier. It does not deal with the distribution system, which is covered in Chapter 5. We also consider in this chapter various technical and marketing aspects of cars. The ways in which cars are priced and the levels of prices in different countries of the EC are dealt with respectively in Chapters 7 and 8.

Cars in use and cars for sale

4.5. The number of cars in use is naturally very much larger than the number bought and sold in any one year. It is not, however, easy to estimate the total number of cars in use in the United Kingdom, principally because of the substantial number of users who evade payment of vehicle excise duty and thereby go unrecorded. At the end of 1990 there was a total of 20.2 million cars licensed.[1]

4.6. Table 4.1 shows the age breakdown of cars licensed under the private and light goods category in the United Kingdom to the end of 1990.

TABLE 4.1 **Cars licensed in the United Kingdom by year of first registration, 1990**

Year of registration	*Units '000*	*Percentage*
Pre-1977	724.3	3.6
1977/78	743.1	3.7
1979/80	1,627.4	8.1
1981/82	2,349.0	11.6
1983/84	3,162.1	15.7
1985/86	3,455.0	17.1
1987/88	3,987.0	19.7
1989/90	4,140.9	20.5
Total	20,188.8	100.0

Source: Department of Transport.

4.7. Most cars will be bought and sold a number of times before being finally scrapped. Information on the sale of used cars is, however, limited. Research carried out by Harbour Wade and Brown in February 1991 for the Retail Motor Industry Federation (RMIF) estimates that there were around 6 million retail used car sales in 1990, ie about three times the level of new car registrations in the same year. The average value of used car sales is, however, much lower than for new cars. According to a survey by Gallup/Omnicar, commissioned by ADT Auctions, the leading car auction company, car buyers in 1990 spent £17.3 billion on used cars, compared with £19 billion spent on new cars.

4.8. The study by Harbour Wade and Brown also estimates retail used car sales by type of seller; this is set out in Table 4.2.

[1] All cars are registered, and licensed, when they are first sold, but not all of them are licensed thereafter. The figure of 20.2 million cars licensed excludes around 2 million so-called `lapsed' cars. These are registered cars other than those known to have been scrapped, for which licences were held at the previous census date (12 months earlier) but which were not licensed on the latest census date. Some of these are thought to be illegally in use in the United Kingdom; others in dealers' possession awaiting sale or temporarily laid up; others may have been scrapped.

TABLE 4.2 **United Kingdom retail used car sales by type of seller, 1990**

Sales outlet	*Sales '000*	*Percentage*
Franchised dealer	1,800	30
Non-franchised dealer	1,020	17
Auctions	180	3
Total	3,000	50
Private individual	3,000	50
Total	6,000	100

Source: Harbour Wade and Brown.

4.9. A used car may be very similar to a new car when the recorded mileage is low and the period of use is short. Even, however, in these circumstances a used car can usually be bought at a substantial discount compared with the price of a new car. There is thus a substantial difference in the value the market places on a used car compared with a new car of the same type. Harbour Wade and Brown in their study calculate the unweighted average trade value as a percentage of the original price for five top-selling model ranges in the lower medium segment. They concluded that a one-year-old car in 1990 had an average trade value of 59 per cent of its original price; a two-year-old car an average trade value of 54 per cent of the original price; and a three-year-old car an average trade value of 47 per cent. The car buyer is moreover unable to select exactly the car he wants in the case of a used car, whereas he can with a new car. The used car may not therefore be seen as offering direct competition to the new car, but as increasing the range of choice available to the car buyer. The extension of choice comes in a number of ways: for a given sum of money the buyer may choose (for example) a one- or two-year-old car of the same model but of a higher specification, or a larger or more luxurious car that is several years old.

New cars

Size and growth of the market

4.10. Over the last 20 years the number of new car registrations has shown a strongly rising trend as well as large shorter-term fluctuations. Figure 4.1 shows the movement in registrations between 1970 and 1990. Over the period as a whole the number of registrations increased by 87 per cent, an annual average growth rate of 3.2 per cent. In the early part of the 1970s, 1973 marked a first high point, the number of registrations having increased by 54 per cent in three years-an annual average growth rate of 15.5 per cent. The market then fell between 1973 and 1975 by 28 per cent (to 1.19 million). The next high point was 1.72 million in 1979, an increase of around 44 per cent over four years. Registrations then fell by 13 per cent to 1.48 million in 1981. The market then grew continuously until 1989 apart from a fall of just over 2 per cent between 1983 and 1984.

4.11. Table 4.3 shows for 1986 to 1990 the number of new car registrations and the wholesale value of sales of new cars. In 1990 these sales amounted to approximately 3.5 per cent of all United Kingdom sales (at the wholesale level) of goods and services.

TABLE 4.3 **Number of United Kingdom new car registrations and wholesale value, 1986 to 1990**

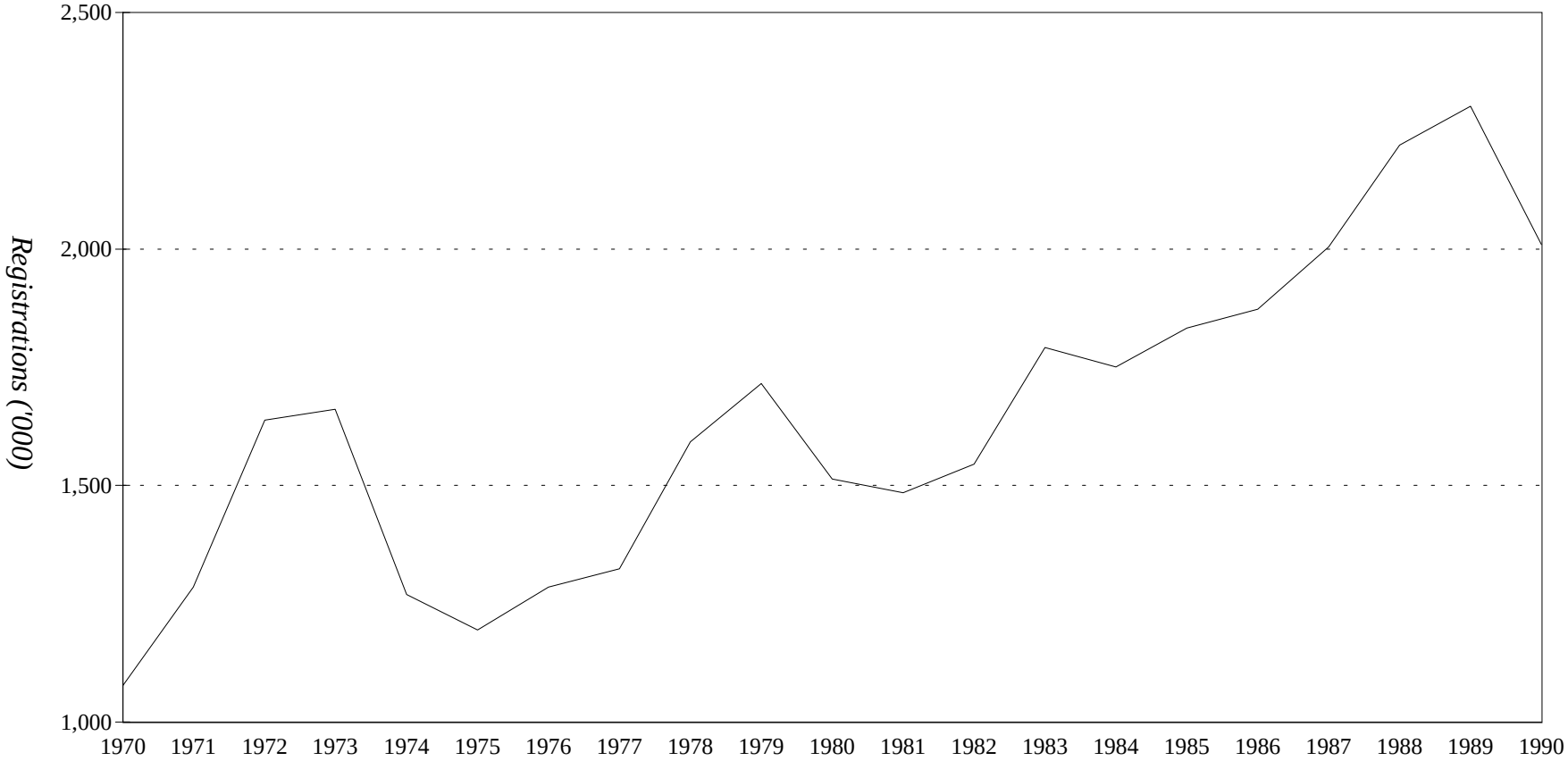
Year	*New registrations*		*Wholesale value of new car sales**	
	Units	*Growth*	*Value*	*Growth*
	m	*%*	*£bn*	*%*
1986	1.88		9.3	
1987	2.01	7.0	11.4	22.6
1988	2.22	10.5	13.9	21.9
1989	2.30	3.6	15.9	14.4
1990	2.01	-12.6	15.8	-0.6
1986 to 1990		7.0		69.9
Annual average		1.7		14.2

Source: MMC calculations on data supplied by the companies.

*Includes exports for all United Kingdom producers apart from Rover.

FIGURE 4.1

United Kingdom registrations of new cars, 1970 to 1990



Source: MMC and SMMT.

4.12. Between 1986 and 1989 new car registrations increased by just over 22 per cent (an annual average growth rate of 7.0 per cent). The fall in 1990 was about 13 per cent to just over 2 million new cars.

4.13. The fall in registrations that began in 1990 and became more rapid in the first half of 1991 is larger than any other in the last 20 years, though comparable with the fall of 1973 to 1975. Just over 1.3 million new cars were registered between January and September 1991 which represents a 22 per cent reduction over the same period in 1990. Recent industry forecasts suggest that new registrations in 1991 might be little more than those in 1982 when 1.55 million new cars were registered.

4.14. The continuing decline is shown clearly in Figure 4.2 which sets out in index form the change in total new car registrations on a month-by-month basis using 12-month periods. This form of presentation has the advantage of avoiding the difficulties caused by seasonal fluctuations. The period covered in the figure is the 12 months ending in January 1989 to the 12 months ending in September 1991. During this time new car registrations fell by 27 per cent. The change in new registrations per month is shown in Table 4.4.

TABLE 4.4 **Periodic change in total 12-monthly United Kingdom new car registrations, January 1989 to September 1991***

12-month period ending	*Index† per month*	*% compound change*
January 1989	100	N/A
August 1989	104	+0.5
December 1989	103	-0.3
July 1990	97	-0.9
August 1990	94	-3.1
December 1990	90	-1.1
June 1991	78	-2.3
July 1991	77	-0.5
August 1991	75	-3.7
September 1991	73	-1.6

Source: SMMT.

*Based on a 12-month rolling period.
†Twelve-month period ending January 1989 provides the base of 100.

4.15. The 12-month period ending August 1991 shows the largest change, a fall of 3.7 per cent over the preceding period (the 12-month period ending July 1990). August is a particularly important month for new car registrations, often accounting for over 20 per cent of annual new car registrations.

Market segments

4.16. There is clearly a wide product range within the car market from the Mini to the Rolls Royce. Cars are, however, generally classified by size and by type (eg small hatchback; large estate car). For our purposes classification by size is the most important. While there is no agreed definition within the industry of classification into segments, there is broad agreement on the segments in which particular models lie.

4.17. We have divided the market into segments in a way which accords with industry perceptions. The segments are as follows:

(a) Small, eg Fiesta, Nova, Metro, Mini.

(b) Lower medium, eg Escort, Astra, Rover 200/400.

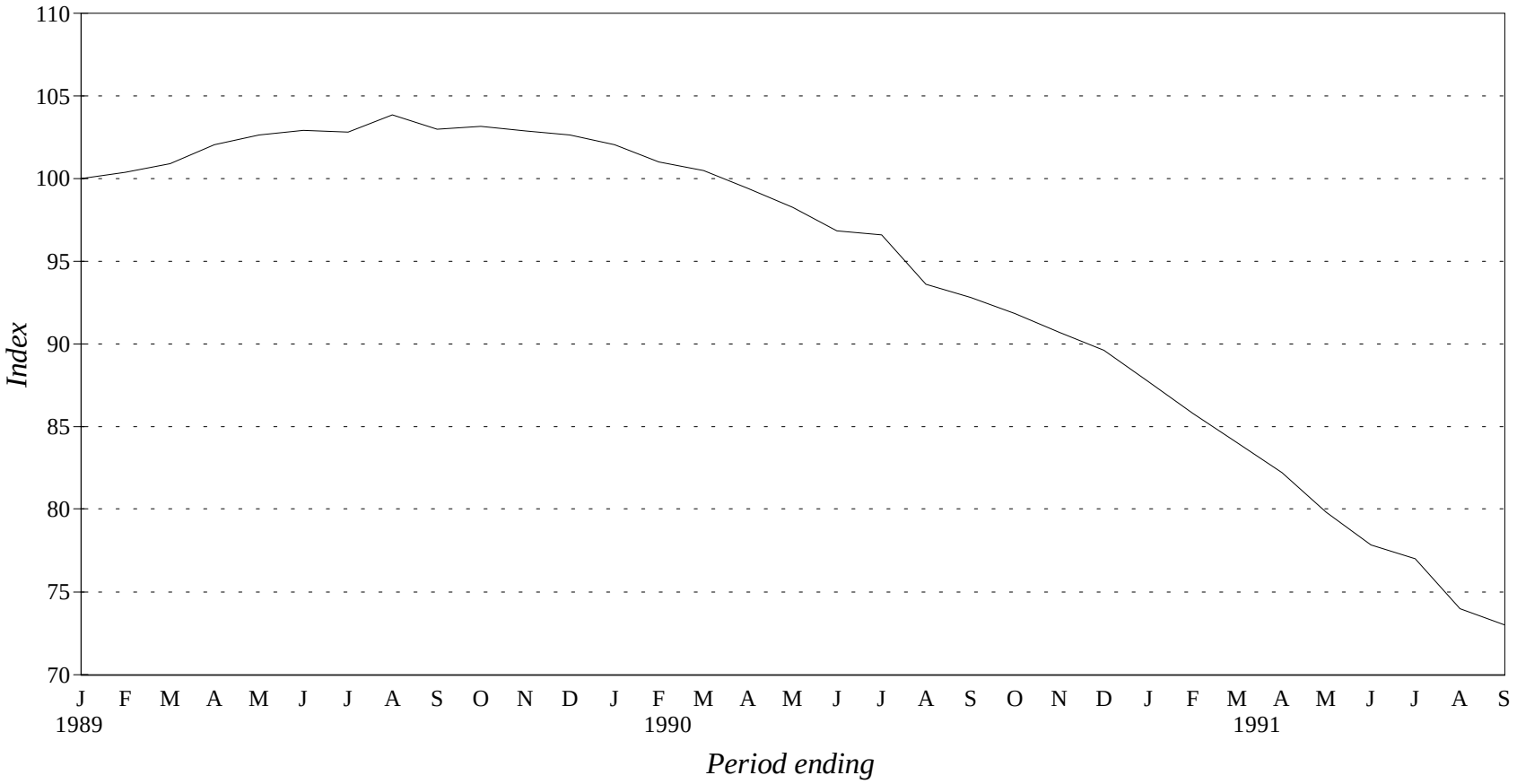
(c) Upper medium, eg Sierra, Cavalier, Montego.

(d) Large, eg Granada, Carlton, Rover 800.

(e) Other, eg luxury cars, utility cars, four-wheel-drive vehicles.

FIGURE 4.2

Monthly change in total United Kingdom new car registrations in 12-month periods from January 1989 to September 1991*



Source: MMC calculations from SMMT data.

*A rolling 12-month period beginning with the 12 months ending January 1989 (base of 100) to the 12 months ending September 1991.

Our allocation of models to segments is set out in Appendix 4.1. The vast majority of cars fall into the first four (ie the named) segments, and for most of them there is little dispute to which segment they are best allocated. (In paragraphs 10.70 to 10.72 we have used, for the purposes of that chapter, a classification of segments provided by DRI Europe Ltd.)

4.18. Figure 4.3 shows the change in the registrations of new cars in the three largest segments between 1986 and 1990. In 1990 registrations in the upper medium segment were 27 per cent higher than in 1986; registrations in the lower medium segment in 1990 were very similar to those in 1986; and in the small segment they actually fell in 1990 by just under 3 per cent.

4.19. Table 4.5 shows the percentage share of the total market accounted for by each of these segments for the period 1986 to 1990.

TABLE 4.5 **Division of the United Kingdom market by segment, 1986 to 1990**

per cent

	1986	*1987*	*1988*	*1989*	*1990*
Small	29	28	28	26	26
Lower medium	36	37	35	34	34
Upper medium	23	23	25	28	27
Large	9	9	9	9	9
Other	3	3	3	3	4
Total	100	100	100	100	100

Source: MMC calculations based on data supplied by the companies.

Note: Information was not available for Alfa Romeo, Citroën (for 1986 and 1987), Porsche and other small suppliers. These cars are not therefore part of the `other' category.

4.20. The lower medium has been the largest segment accounting for just over one-third of the total market over this period, though its share fell by two percentage points between 1986 and 1990. There was also a fall in the share of the small segment over the period, though it continues to have more than one-quarter of the total market. The upper medium segment increased its share by four percentage points, reaching 27 per cent in 1990. There was no movement in the share of the large segment, which remained at 9 per cent, and a small increase, to 4 per cent, in the `other' segment.

Market sectors: private and non-private

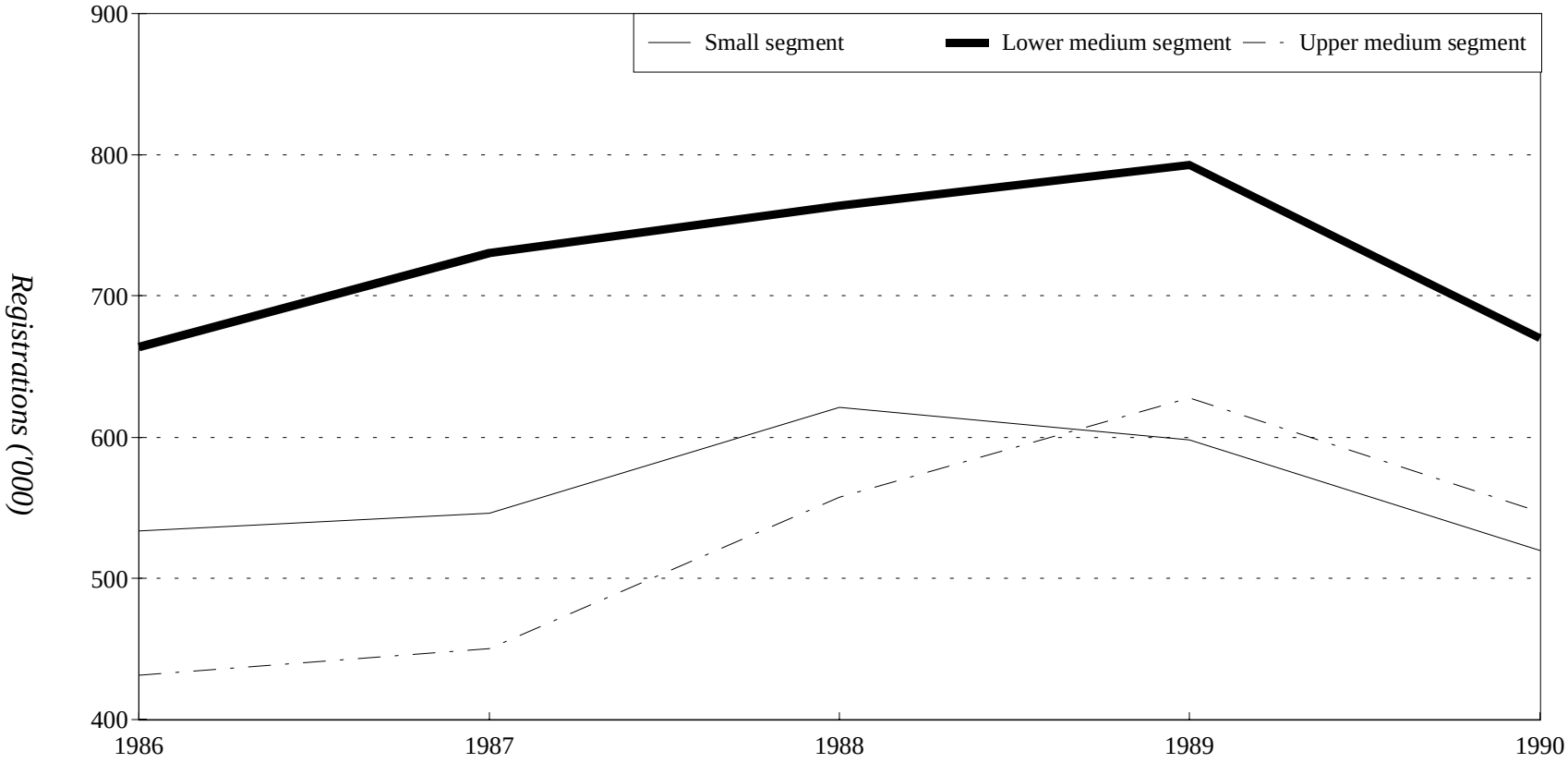
4.21. The market may be divided not only on a product basis but also by type of customer. The main distinction is between the private motorist and the business user. It is not, however, possible to draw a clear distinction as cars may be used to a greater or lesser extent for business as well as leisure and the financial contribution made by companies varies greatly. There is no standard industry definition of the `private' sector but what is generally meant by `private' sales is cars purchased by private persons at their own expense solely or chiefly for private use.

4.22. Within the non-private sector there is a further distinction to be made. The industry uses a category of `fleet' sales to identify those business customers that buy in higher volumes. The significance of the distinctions between `private' and `non-private' and between `fleet' and `non-fleet' lies not only in a difference in terms of sale but also in buying behaviour and product preferences.

4.23. Unfortunately it is not easy to find statistics that accurately reflect these distinctions. We start by considering the shares of the private and non-private sectors in the whole market. The most important source of information is the registration statistics of the Department of Transport (DTp). DTp identifies those new cars that are registered in the name of a company. The statistics do not cover Northern Ireland, the Channel Islands and the Isle of Man; they include imports as well as cars that are registered in a dealer's name but may later be sold to private buyers. This latter category may amount, according to one supplier, to some 70,000 cars per annum.

FIGURE 4.3

Trends in registrations of United Kingdom new cars in the three main market segments, 1986 to 1990



Source: MMC calculations from data supplied by the companies.

4.24. Table 4.6 shows the number of new non-private registrations on the basis of the DTp statistics between 1986 and 1990 and the percentage of the total market accounted for by these registrations.

TABLE 4.6 **Registrations of non-private new cars in Great Britain, 1986 to 1990**

Year	*Units '000*	*Percentage of total market*	*Growth %*
1986	868	46.1	
1987	970	48.1	11.8
1988	1,131	51.2	16.6
1989	1,175	51.0	3.9
1990	1,050	52.0	-10.6
1986 to 1990			21.0
Annual average			4.9

Source: DTp figures for cars registered in the name of a company.

4.25. The growth in the registrations of non-private cars between 1986 and 1990 (totalling 21 per cent) is much higher than that for the total market (at 7 per cent). Between 1989 and 1990 non-private registrations fell by 11 per cent compared with a fall in registrations of 13 per cent for the total market. Over the 1980s as a whole the share of non-private registrations increased significantly, having been only around 40 per cent in 1981 to 1983.

4.26. The DTp figures, however, will understate the size of the non-private sector to the extent that cars paid for by a company are registered in an employee's name. In the 1985/86 National Travel Survey 26 per cent of cars purchased by companies were not registered in the company name, an increase from 19 per cent in the previous National Travel Survey of 1978/79.[1]

4.27. Estimates made by one private research body suggested that the share of the non-private sector in the G registration year (1989/90) was a little below 50 per cent.

4.28. One other way in which the non-private sector may be considered is by reference to taxation. The following categories can be distinguished:

(a) cars whose users are subject to car benefit taxation (Schedule E), which were estimated by Inland Revenue to represent 27 per cent of the 1989 new car market;

(b) cars which are bought as a business expense (Schedule D), and represent 7 per cent of the new car market, on Inland Revenue estimates; and

(c) other business cars, comprising cars bought by rental companies and driving schools, dealer and supplier registrations, and cars of employees earning less than £8,500 per annum and not subject to car benefit taxation.

The effects of the taxation of the benefit of private use of a company car are discussed in paragraphs 4.113 to 4.123.

4.29. The car suppliers have differing views on the size of the non-private sector. Peugeot told us that, based on research findings, it believed the non-private sector was around 50 per cent of the total market. Some other suppliers thought that the share of the non-private sector was rather higher. BMW and Honda referred us to the *Lex Report on Motoring in 1990*, which gave the share of the sector at between 55 and 60 per cent. Renault told us that based on the 1989 statistical survey of the British Vehicle Rental and Leasing Association (BVRLA) it estimated the share of the sector at between 50 and 60 per cent. Mercedes, Toyota and Mazda all estimated the share of the sector at 60 per cent. Nissan UK had the highest estimate at 70 per cent.

[1]For details see *The Impact of Company-Financed Motoring on Public Transport*, by Stephen Potter of the Open University, March 1991.

4.30. Those suppliers that produce cars in the United Kingdom and distributors for new cars imported into the United Kingdom operate purchasing schemes in favour of their employees (see paragraphs 7.108 and 7.109 and Table 7.27). In 1990 sales of new cars to employees accounted for about 4 per cent of the total registrations.

Fleet sales

4.31. We now turn to the distinction between `fleet' and `non-fleet' within the non-private sector. There is a Driver and Vehicle Licensing Agency (DVLA) definition of `fleet' (see paragraph 4.34), but there is evidence that definitions used by some suppliers and dealers do not accord with it.

4.32. Twelve out of the 16 suppliers with a market share in 1990 of more than 1 per cent told us that they considered fleet sales to be those to an organisation operating 25 or more `road-going' vehicles, where `road-going' is defined as any vehicle on which the appropriate vehicle excise duty is payable. This definition therefore relates to vehicles and not just cars, and to vehicles purchased from all suppliers and not just from one.

4.33. The remaining four suppliers adopt other definitions. BMW told us that it currently classified as fleet sales those to companies buying ten or more of its new cars in a 12-month period, though it had previously used the figure of 20 rather than ten. VAG (United Kingdom) Ltd (VAG (UK)) told us that its definition is those having more than five VAG (UK) vehicles in their fleets. Mazda told us that its definition was those who operate more than 100 vehicles. Fiat, however, told us that it regards the fleet sector as the same as the non-private sector.

4.34. The primary industry data source for the size of fleet sales is the statistics compiled from the DTp Form V55 in which the dealer is asked to classify sales into a number of categories including `fleet'. A DVLA booklet entitled *The First Licensing and Registration of Motor Vehicles*, which is designed to assist dealers, defines fleets as `vehicles sold into a fleet of 25 or more cars/estate cars, or a fleet of 25 or more commercial vehicles'. We know, however, from one of our dealer questionnaires, that the Form V55 is not always completed in accordance with this definition: the responses indicated that only around two-thirds of dealers had read the DVLA booklet (see Appendix 4.2 for details of the various surveys undertaken).

4.35. The same MMC questionnaire asked dealers for their definition of `fleet'. Table 4.7 shows that about one-half of the dealers surveyed use the standard industry definition for a fleet, with around one-third using a lower threshold.

TABLE 4.7 **Dealer definitions of fleets**

Number of cars in fleet	*Percentage of dealers*
Below 25	32
25 or over	52
More than 25	2
Other	14
Total	100

Source: MMC dealer survey.

4.36. The response to the questionnaire also showed how when completing Form V55 dealers decided whether a sale should be classified as `fleet' given their own definition. 50 per cent said that they decided on the basis of their own knowledge of the purchaser; 37 per cent used a system of sales bands; 8 per cent referred to their fleet register; and 5 per cent used other methods.

4.37. As part of our survey of suppliers we sought information directly on fleet sales. Using this source, rather than the DTp figures, Table 4.8 shows the percentage of the total market accounted for by fleet sales between 1986 and 1990 and the growth in fleet and non-fleet registrations during the same period.

TABLE 4.8 **United Kingdom market shares of fleet sales, and growth rates, 1986 to 1990**

	*Fleet**		*Growth of sales*	
Year	*Units*	*Share*	*Fleet*	*Non-fleet*
	'000	*%*	*%*	*%*
1986	520	28		
1987	598	30	15	4
1988	729	33	22	6
1989	758	33	4	3
1990	676	34	-11	-13
1986 to 1990			30	- 2
Annual average			7	-0.5

Source: MMC calculations on data supplied by the companies.

*Companies' own definition.

4.38. The table shows a gradual increase in the fleet share of the market from 28 per cent in 1986 to 34 per cent in 1990. Given that the market share of all non-private sales is probably between 50 and 60 per cent, there would be between 16 and 26 per cent of the market accounted for by business customers whose purchases are too small for them to be classified as fleet customers. Over the period 1986 to 1990 the number of fleet registrations has increased by 30 per cent compared with a fall of 2 per cent in the number of non-fleet registrations.

4.39. Fleet customers are very varied. Some buy just enough cars to qualify as fleet customers, while at the other end of the scale there are those who buy thousands of cars a year. The larger fleet customers-those who buy more than 100 cars a year is a common definition-may be given what is known as `national account' status, which means that they can negotiate direct with the supplier as well as with the dealer; or they may simply qualify for volume-related rebates from the supplier. The largest fleet customers are the self-drive hire companies, such as Eurodollar, which are likely to buy some 20,000 cars or more each year. In their report for the RMIF, Harbour Wade and Brown estimate that the major daily rental companies acquire around 90,000 new cars each year; the smaller rental companies acquiring about 60,000 each year. These estimates are slightly higher than those of the BVRLA which estimated that the size of the daily rental fleet of cars, car-derived vans and minibuses in mid-1990 was around 137,000, a fall of just over 7 per cent from 1989. The BVRLA estimated that the daily rental fleet is more than twice the size it was in the early 1980s. Based upon information supplied to us by the companies, we estimate that in 1990 the daily rental companies (both large and small) acquired just under 180,000 new cars.

4.40. In their report Harbour Wade and Brown also show a breakdown of fleet sales for 1989 by the size of purchaser, and this is set out in Table 4.9.

TABLE 4.9 **Share of fleet sales by size of purchaser in 1989**

Number of cars purchased annually	*Percentage of fleet market*
25-100	37.4
101-600	34.7
601-1,000	15.2
1,001 and over	12.7
Total	100.0

Source: Harbour Wade and Brown.

4.41. Fleet sales are significant in all the main segments of the market. Table 4.10 shows the percentage of the four main segments accounted for by fleet registrations between 1986 and 1990. The table shows that in 1990 fleet registrations accounted for a much higher proportion of registrations in the upper medium and large segments (50 and 41 per cent respectively) than in the lower medium and small segments (32 and 21 per cent respectively).

TABLE 4.10 **Percentage of market segments accounted for by fleet registrations, 1986 to 1990**

Market segment	*1986*	*1987*	*1988*	*1989*	*1990*
Small	16	19	21	21	21
Lower medium	28	29	32	32	32
Upper medium	43	46	47	46	50
Large	38	39	42	40	41

Source: MMC calculations on data supplied by the companies.

Market shares by supplier

4.42. There is a wide range of market shares, from Ford with just over a quarter of the market to suppliers of specialist cars which sell only a few hundred a year. Table 4.11 sets out the percentage shares of the total market for new car registrations by marques and suppliers[1] between 1986 and 1990.

4.43. There are three suppliers with relatively large shares, namely Ford, Vauxhall and Rover. Ford's share (just over 25 per cent in 1990-including one-half of one percentage point on account of Jaguar which it acquired in December 1989)-has fallen (by some three percentage points) since its peak during this period in 1987. General Motors (principally its United Kingdom subsidiary, Vauxhall) has the second largest share with just over 16 per cent and has made some gains over the last three years. It took over the second position in 1989 from the Rover Group whose market share fell from just under 16 per cent in 1986 to 14 per cent in 1990.

4.44. There are a further five suppliers with shares of more than 3 per cent of the market (counting Peugeot and Citroën separately) and an additional eight suppliers with more than a 1 per cent share. There are also many (more than 20) suppliers with very small shares and these together account for some 4 per cent of the market.

4.45. All the leading manufacturers in Western Europe (Ford, General Motors, PSA, Volkswagen, Renault and Fiat) are represented in the United Kingdom with Fiat having among them the lowest share at just under 3 per cent. With the exception of Rover all the main suppliers have parent companies based outside the United Kingdom.

4.46. Japanese suppliers accounted for 11.9 per cent of sales in 1990, of which 86 per cent were imported cars. Of the Japanese suppliers Nissan UK has by far the largest market share, accounting in 1990 for 45 per cent of Japanese makes (compared with Toyota's 18 per cent, Honda's 13 per cent, and Mazda's 10 per cent, with five other suppliers accounting for the rest).

[1] See Appendix 2.2 for the full names of these companies.

TABLE 4.11 **Shares of total United Kingdom new car registrations by marque and supplier, 1986 to 1990**

per cent

	Market shares				
Supplier	*1986*	*1987*	*1988*	*1989*	*1990*
Ford	*27.4*	*29.2*	*27.0*	*27.1*	*25.8*
Ford	27.0	28.7	26.3	26.5	25.3
Jaguar	0.4	0.6	0.7	0.6	0.5
General Motors	*15.7*	*14.0*	*14.2*	*15.8*	*16.7*
Vauxhall	15.1	13.5	13.7	15.2	16.1
Saab	0.6	0.5	0.5	0.5	0.6
Lotus	*	*	*	*	0.1
Rover	*15.8*	*14.9*	*15.0*	*13.6*	*14.0*
Rover	15.6	14.7	14.7	13.2	13.4
Land Rover	0.2	0.3	0.3	0.3	0.6
PSA	*6.4*	*7.3*	*8.7*	*8.8*	*9.1*
Peugeot	4.6	5.0	5.7	6.1	6.2
Citroën	1.8	2.3	3.0	2.8	2.9
Volkswagen	*6.1*	*5.8*	*5.9*	*6.0*	*6.3*
Volkswagen (VAG (UK))	4.8	4.6	4.6	4.7	4.7
Audi (VAG (UK))	1.0	0.8	0.8	0.8	1.0
SEAT	0.3	0.4	0.5	0.5	0.5
Nissan (Nissan UK)	5.9	5.7	6.1	6.0	5.3
Renault	3.7	3.9	3.9	3.8	3.4
Volvo	3.7	3.5	3.6	3.6	3.3
Fiat	3.3	3.4	3.4	3.1	2.7
BMW	1.9	1.9	1.9	2.1	2.1
Toyota	1.9	1.9	1.8	1.9	2.1
Honda	1.1	1.2	1.2	1.2	1.6
Mercedes-Benz	1.1	1.1	1.1	1.2	1.3
Mazda	1.1	0.9	1.0	1.0	1.3
Lada (MVI)	1.1	1.3	1.4	1.2	1.1
Skoda	0.7	0.7	0.7	0.6	0.5
Mitsubishi	0.6	0.6	0.6	0.5	0.7
Zastava	0.5	0.4	0.4	0.3	0.2
Proton	n.a	n.a	n.a	0.3	0.6
Suzuki	0.3	0.3	0.3	0.2	0.3
Hyundai	0.4	0.5	0.5	0.4	0.4
Subaru	0.2	0.3	0.2	0.2	0.2
Alfa Romeo	0.1	0.1	0.2	0.2	0.2
FSO (MCL)	0.2	0.2	0.3	0.2	0.1
Daihatsu	0.3	0.3	0.2	0.2	0.2
Isuzu	N/A	0.1	0.2	0.1	0.2
Porsche	0.2	0.1	0.1	0.2	0.1
Lancia	0.2	0.2	0.2	0.1	0.1
Rolls Royce	*	*	*	*	*0.1*
Rolls Royce	*	*	*	*	*
Bentley (Rolls Royce)	*	*	*	*	*
Maserati	*	*	*	*	*
Reliant	*	*	*	*	*
Panther	*	*	*	*	*
Other imports	*	*	*	*	*
Other domestic production	*	*	*	*	0.1
Others-total	*	*	0.1	0.1	0.1
Totals (percentage)†	100.0	100.0	100.0	100.0	100.0
Total (volume) (million)‡	1.88	2.01	2.22	2.30	2.01
Japanese makes	11.4	11.3	11.6	11.3	11.9
Japanese imports	11.3	9.8	9.5	9.3	10.1
All imports	55.9	51.7	56.5	56.9	56.7

Source: SMMT and MMC calculations on data supplied by the companies.

*Less than 0.1 per cent.
†Totals may not sum because of rounding.
‡Totals differ slightly from those published by the SMMT.

4.47. A number of new suppliers have entered the market over the last few years. None manufacture, or have plans to manufacture, in this country. Table 4.12 shows those which entered during the 1980s, the date of their entry, their country of origin and their share of the United Kingdom market in 1990. Among these the Japanese suppliers are constrained by VERs (considered in detail in Chapter 9), some of the smaller tending to concentrate on market niches such as sports or utility vehicles.

TABLE 4.12 **Companies entering the United Kingdom market during the 1980s**

Make	*Year of entry*	*Country of origin*	*Share of market in 1990 %*
Zastava (Yugo)	1981	Yugoslavia	0.2
Hyundai	1982	Korea	0.4
Dacia	1985	Romania	*
SEAT	1985	Spain	0.5
Isuzu	1986	Japan	0.2
Proton	1989	Malaysia	0.6
Total			1.9

Source: SMMT and information supplied by the companies.

*Less than 0.1 per cent, and now in receivership.

4.48. The new entrants have mainly come from the Far East or Eastern Europe. The latest new entrants, not shown in the table above, are Kia (based in Korea) and Sao (based in South Africa) which began supplying new cars to the United Kingdom in 1991.

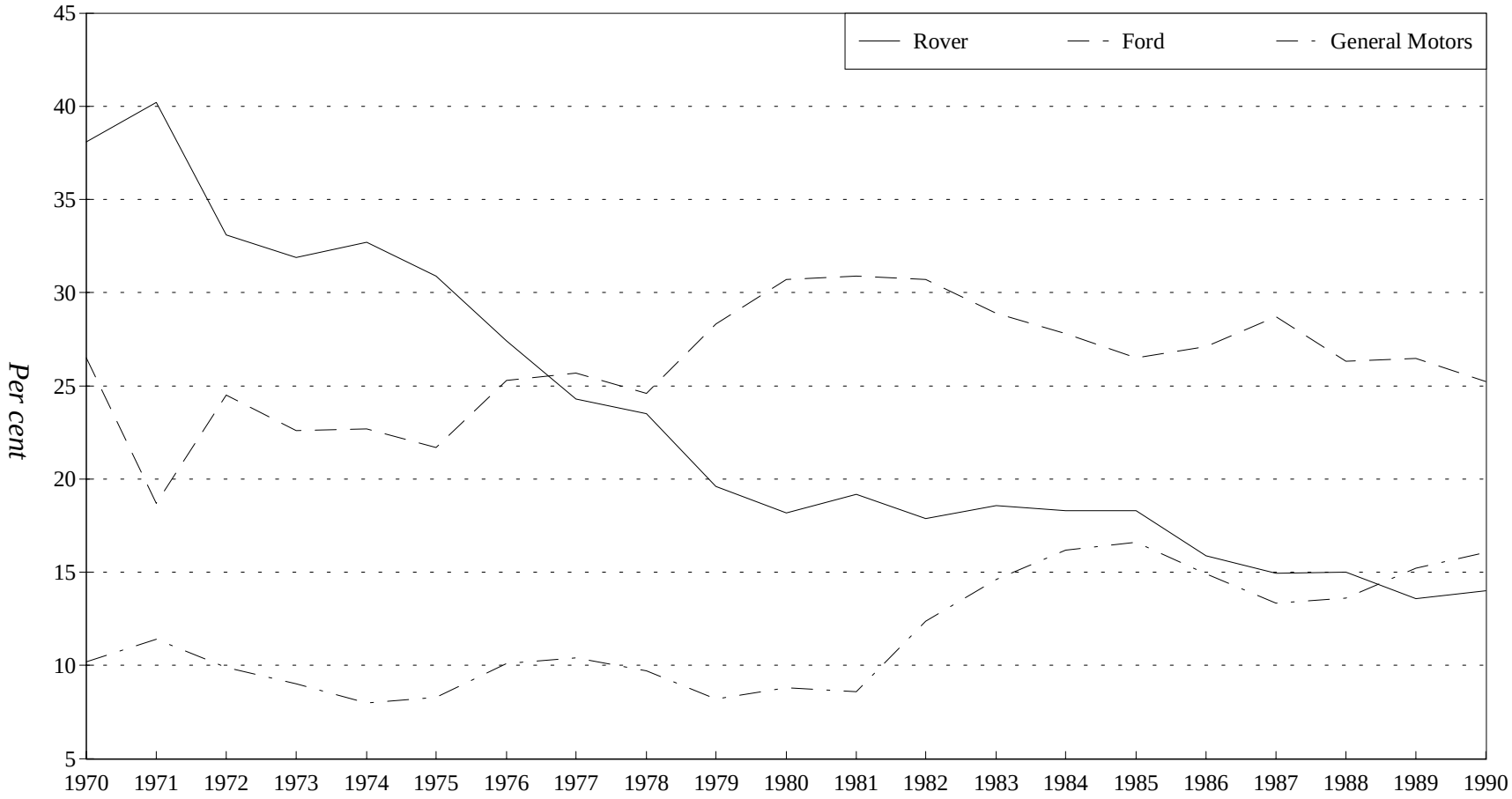
4.49. Of the new entrants in the 1980s Proton has increased its market share most rapidly reaching around 0.6 per cent in only just over one year. The difficulty for a new entrant in continuing to increase its market share is shown, however, by the case of Lada, which entered the United Kingdom market in 1974, achieved a share of around 1 per cent in 1977, but has not been able to increase its share very much since then.

4.50. The largest changes in market shares between 1986 and 1990 have been those of the market leaders and the gains made by Peugeot and Citroën (1.6 and 1.1 percentage points respectively). Other suppliers have seen little change in market share.

4.51. If we look back further in time than the last five years, we can see much larger changes in the relative positions of suppliers. Figures 4.4 and 4.5 and Table 4.13 show the share of the total market held by the BMC companies which were incorporated into British Leyland and its successor company BL, and then Rover; Ford; General Motors; imports from Japan; and `other' imports (ie all imports excluding those of Ford, BL, Vauxhall and the Japanese) for the period 1970 to 1990. During the earlier period (1970 to 1985) the most important change was the fall in BL's market share from 38 to 18 per cent. From BMC's position as clear market leader BL lost more than half of its market share and found itself struggling to maintain even second place. BL's weakness in this period provided a major opportunity for other suppliers, including both European and Japanese importers. Ford's market share fluctuated mainly between 20 and 30 per cent. General Motors had a market share of around 8 to 10 per cent between 1970 and 1981, from where it gradually increased to 16 per cent in 1985.

FIGURE 4.4

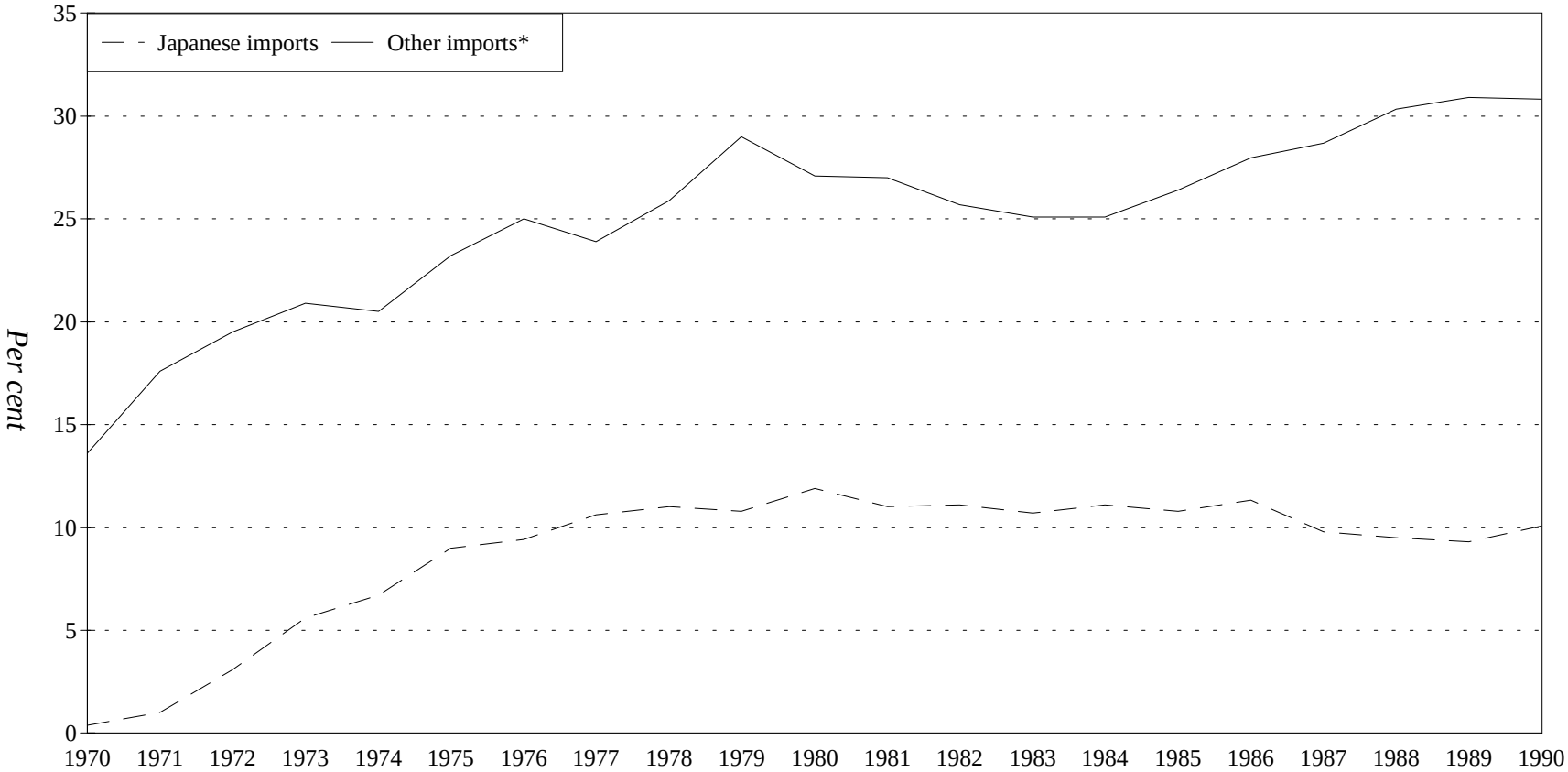
Changes in the United Kingdom market shares of the three leading suppliers, 1970 to 1990



Source: MMC calculations on SMMT data.

FIGURE 4.5

Changes in the United Kingdom market shares of Japanese and other imports,* 1970 to 1990



Source: MMC calculations on SMMT data.

*Other imports exclude imports by Japanese companies, Ford, BL and General Motors.

TABLE 4.13 **United Kingdom market shares of the leading suppliers, Japanese imports and other imports, 1970 to 1990**

Year	*Ford*	*BMC/BL/ Rover*	*General Motors**	*Japanese imports*	*Other imports†*
1970	26.5	38.1	10.2	0.4‡	13.6
1971	18.7	40.2	11.4	1.0‡	17.6
1972	24.5	33.1	9.9	3.1	19.5
1973	22.6	31.9	9.0	5.6	20.9
1974	22.7	32.7	8.0	6.7	20.5
1975	21.7	30.9	8.3	9.0	23.2
1976	25.3	27.4	10.1	9.4	25.0
1977	25.7	24.3	10.4	10.6	23.9
1978	24.6	23.5	9.7	11.0	25.9
1979	28.3	19.6	8.2	10.8	29.0
1980	30.7	18.2	8.8	11.9	27.1
1981	30.9	19.2	8.6	11.0	27.0
1982	30.5	17.8	11.7	11.0	26.8
1983	28.9	18.6	14.6	10.7	25.1
1984	27.8	18.3	16.2	11.1	25.1
1985	26.5	18.3	16.6	10.8	26.4
1986	27.0	15.8	15.1	11.3	28.0
1987	28.7	14.9	13.5	9.8	28.7
1988	26.3	15.0	13.7	9.5	30.3
1989	26.5	13.6	15.2	9.3	30.9
1990	25.3	14.0	16.1	10.1	30.8

Source: SMMT and MMC calculations on data supplied by the companies.

*Includes Vauxhall and Opel.
†Excludes imports of Ford, BL, Vauxhall and Japanese manufacturers.
‡Excludes Mazda.

4.52. The share of Japanese suppliers increased from virtually nothing in 1970 to 9 per cent in 1975 and remained around this level. The shares of other major suppliers remained roughly of the same order over the period-apart from that of Peugeot, which increased from almost nothing in 1970 to 4 per cent in 1985.

4.53. The fall in the share of BMC/BL/Rover when related to increases in market share by other suppliers (as set out in Table 4.14) can be divided into three periods: 1970 to 1977, 1977 to 1981, and 1981 to 1985. During the period 1970 to 1977, its market share fell by 14 percentage points. Imports were the main beneficiaries with the shares held by Japanese and `other' imports (ie excluding those of Ford, BL and General Motors) both increasing by around ten points. The shares of Ford and General Motors remained fairly constant, both of them losing and then regaining market share during this period. Between 1977 and 1981 BL's market share fell by five points. This time Ford was a beneficiary as well as `other' imports: Ford's share increased by five points and that of `other' imports by three points, with the shares of General Motors and Japanese imports remaining fairly stable. Between 1981 and 1985 BL's market share declined little, and indeed Rover's has been fairly stable since.

TABLE 4.14 **Change in market shares between 1970 and 1985**

Percentage points

	1970 to 1977	*1977 to 1981*	*1981 to 1985*
BMC/BL/Rover	-13.8	-5.1	-0.9
Ford	-0.8	+5.2	-4.4
General Motors	+0.2	-1.8	+8.0
Other imports	+10.3	+3.1	-0.6
Japanese imports	+10.2	+0.4	-0.2
Other UK suppliers	-5.9	-1.8	-2.1

Source: MMC calculations on SMMT data.

Notes:
1. For 1970/71, Mazda imports are included with `other imports' and not with `Japanese imports'.
2. BMC/BL/Rover includes Jaguar during this period.
3. General Motors includes Vauxhall and Opel only.
4. Ford excludes Jaguar and Aston Martin.
5. Other imports exclude those of Ford, BL, General Motors and Japanese manufacturers.

Market shares by segment

4.54. Table 4.15 shows the manufacturers' market shares by segment between 1986 and 1990 and Figures 4.6 to 4.9 show them but only for the leading suppliers and the Japanese. Ford had the highest share in the small and lower medium segments in 1990: it accounted for 29 per cent of the new car registrations in each of these segments (where it is represented by the Escort and Orion in the lower medium segment and the Fiesta in the small segment).

4.55. In the upper medium segment in 1990 Vauxhall, with the Cavalier, had the highest market share, 25 per cent, a position it last held in 1986. In 1990 Ford was in second position, at 24 per cent, having held a lead over Vauxhall of 9 to 12 points between 1987 and 1989.

4.56. General Motors took first place instead of Ford in the large segment in 1988: with Saab included, it had 23 per cent of this segment, falling to 21 per cent in 1990. Rover occupied the second place in the small and lower medium segments.

4.57. Suppliers' market shares may vary markedly between segments, and this applies irrespective of the overall market share. Thus in 1990 Ford's share of the large segment was little more than two-thirds of its share in the lower medium segment. Similarly Fiat (which had just under 3 per cent of the total market in 1990) accounted for over 7 per cent of the small segment but was not significant in the other segments. Volvo (which had just over 3 per cent of the total market in 1990) was the third leading supplier in the large segment with a 15 per cent share, whilst Mercedes-Benz (which accounted for just over 1 per cent of the total market in the same year) had 13 per cent of that segment.

Market shares by sector

4.58. As described in paragraphs 4.21 to 4.41, the market may be divided into the private and non-private sectors and the latter further divided between fleet and non-fleet sales. While there is some statistical uncertainty the private sector appears to form around 45 per cent of the market and of the remainder about one-third is accounted for by fleet sales. For the purpose of the market share analysis the most important distinction is between fleet and non-fleet sales. This reflects the fact that fleet buyers are interested in a narrower range of models than the private buyer, and that special terms are commonly given to them (as described in Chapter 7). We therefore now consider the pattern of market shares for fleet sales and for non-fleet sales.

Fleet sales

4.59. The shares of fleet sales held by suppliers between 1986 and 1990 are shown in Table 4.16.

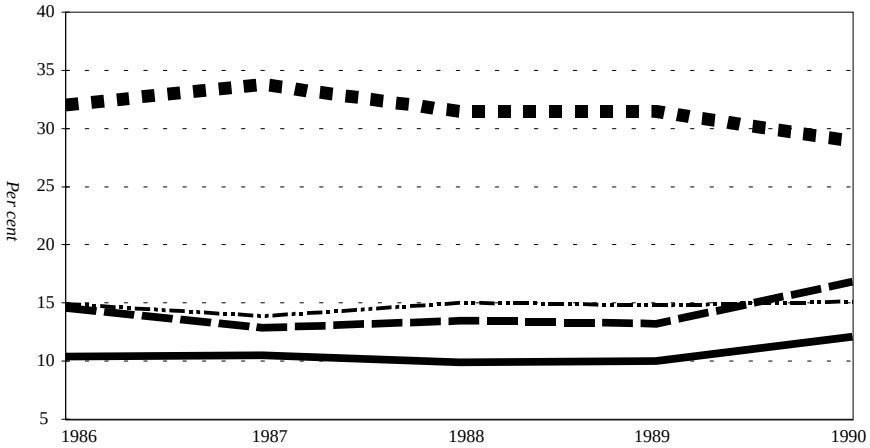
FIGURE 4.6

Changes in United Kingdom market shares in the small segment, 1986 to 1990

Source: MMC calculations from data supplied by the companies.

FIGURE 4.7

Changes in United Kingdom market shares in the lower medium segment, 1986 to 1990



Source: MMC calculations from data supplied by the companies.

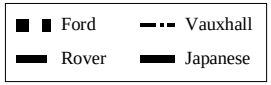
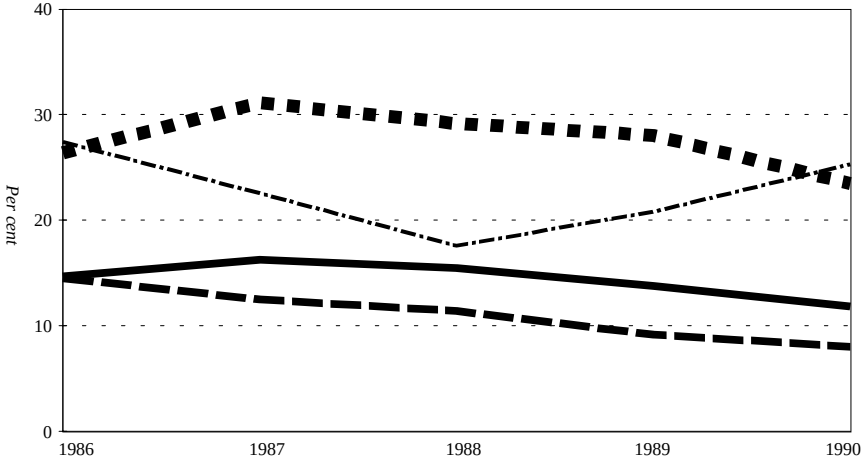


FIGURE 4.8

Changes in United Kingdom market shares in the upper medium segment, 1986 to 1990



Source: MMC calculations from data supplied by the companies.

FIGURE 4.9

Changes in United Kingdom market shares in the large segment, 1986 to 1990

Source: MMC calculations from data supplied by the companies.

TABLE 4.15 **Manufacturers' United Kingdom market shares by segment, 1986 to 1990**

per cent

Segment	*Make*	*1986*	*1987*	*1988*	*1989*	*1990*
Small	Ford	26.9	28.1	23.3	25.0	29.1
	Rover	23.5	22.7	21.1	18.8	17.5
	PSA					
	Peugeot	7.3	9.0	8.7	8.8	9.7
	Citroën	N/A	N/A	4.3	4.2	4.4
	Vauxhall	9.1	7.8	9.2	11.9	10.5
	Nissan	9.0	7.1	8.4	9.1	9.3
	Fiat	9.2	10.6	10.2	8.2	7.5
	Volkswagen					
	Volkswagen	6.1	5.7	5.1	5.1	4.9
	SEAT	0.8	1.3	1.5	1.8	1.9
	Renault	5.4	5.2	5.7	5.3	4.0
	Other	2.4	2.4	2.5	2.0	1.2
	Total	100.0	100.0	100.0	100.0	100.0
	Japanese	*10.4*	*8.5*	*9.8*	*10.1*	*10.4*
	Market share of small segment	29	28	28	26	26
Lower medium	Ford	32.6	34.5	32.1	32.1	28.9
	Vauxhall	15.2	14.2	15.4	15.0	15.1
	Rover	14.8	13.1	13.8	13.5	16.8
	Volkswagen					
	Volkswagen	6.4	6.5	7.7	8.0	8.0
	SEAT	0.2	0.1	0.1	0.1	0.1
	Nissan	4.3	5.1	4.7	4.7	4.2
	Peugeot	4.5	6.0	4.9	4.6	4.7
	Volvo	6.1	5.5	5.8	4.1	2.2
	Other	15.7	14.8	15.4	17.8	19.9
	Total	100.0	100.0	100.0	100.0	100.0
	Japanese	*10.7*	*10.7*	*10.1*	*10.1*	*12.1*
	Market share of lower medium segment	36	37	35	34	34
Upper medium	Ford	26.4	31.1	29.2	28.0	23.5
	Vauxhall	27.4	22.6	17.6	20.8	25.3
	PSA					
	Peugeot	1.9	1.2	5.8	7.7	7.3
	Citroën	N/A	N/A	6.2	5.9	5.4
	Rover	14.5	12.5	11.4	9.2	8.0
	Nissan	6.8	7.8	8.0	7.0	4.9
	BMW	5.6	5.5	4.7	4.6	4.6
	Volkswagen					
	Audi	2.2	1.9	2.1	1.9	2.8
	Volkswagen	3.4	2.8	2.0	2.4	2.9
	Other	11.8	14.6	12.9	12.5	15.3
	Total	100.0	100.0	100.0	100.0	100.0
	Japanese	*14.7*	*16.3*	*15.5*	*13.8*	*11.8*
	Market share of upper medium segment	23	23	25	28	27
Large	*General Motors*					
	Vauxhall	11.8	14.2	17.2	15.8	14.3
	Saab	6.6	6.0	5.4	6.1	6.9
	Volvo	18.9	17.1	16.8	17.6	14.9
	Ford	24.0	20.3	18.1	16.9	19.4
	Rover	5.3	11.7	14.8	14.9	12.2
	Mercedes-Benz	10.2	10.0	9.9	12.2	13.3
	Other	23.1	20.8	17.7	16.4	19.0
	Total	100.0	100.0	100.0	100.0	100.0
	Japanese	*2.7*	*2.2*	*2.0*	*2.1*	*2.2*
	Market share of large segment	9	9	9	9	9
Other	BMW	23.0	22.6	22.4	27.0	23.0
	Jaguar	14.8	19.9	19.9	19.4	13.7
	Land Rover	8.2	9.0	8.5	10.6	16.2
	Subaru	7.7	8.9	6.8	6.6	6.0
	Mercedes-Benz	7.8	7.9	6.3	5.8	4.4
	Suzuki	6.3	6.9	5.1	4.8	4.1
	Renault	2.5	2.8	3.1	4.3	3.2
	Other	29.6	22.0	28.1	21.5	29.4
	Total	100.0	100.0	100.0	100.0	100.0
	Japanese	*28.2*	*32.6*	*29.1*	*28.5*	*34.2*
	Market share of other segment	3	3	3	3	4

Source: MMC calculations on data supplied by the companies.

Notes:

1. Excludes Alfa Romeo, Citroën (for 1986 and 1987), Maserati, Panther, Porsche, Reliant, and others, which, in aggregate, accounted for 1 to 2.5 per cent of the market in 1988 to 1990.
2. The names in italics in the `make' column are those of manufacturing groups for a marque or marques in the segments.
3. Totals may not sum because of rounding.

TABLE 4.16 **Shares of United Kingdom new fleet registrations, 1986 to 1990**

per cent

Make	*1986*	*1987*	*1988*	*1989*	*1990*
Ford Group*	43	45	40	36	34
Vauxhall	25	21	21	25	29
Rover Group†	17	18	21	19	20
PSA					
Peugeot	1	2	3	4	4
Citroën	1	1	2	3	3‡
Volkswagen					
Volkswagen	5	5	4	4	2
Audi	3	2	2	2	1
Nissan	§	1	1	1	1
Renault	3	3	2	3	3
Volvo	1	1	1	1	1
Fiat	1	1	1	1	1
BMW	§	§	1	1	1
Others	§	§	1	§	§
Total¶	100.0	100.0	100.0	100.0	100.0
Total (volume) ('000)	520.0	598.0	728.6	758.1	675.7

Source: MMC calculations on data supplied by the companies.

*Includes Jaguar.
†Includes Land Rover.
‡Estimated.
§Less than 0.5 per cent.
¶Totals may not sum because of rounding.

4.60. While the three leading suppliers in the market as a whole hold the same positions in fleet sales, all have a higher share of fleet sales and accounted for 83 per cent of them in 1990 compared with 56 per cent of the total market in the same year. Ford in particular has a higher share of fleet sales (34 per cent in 1990), although it has fallen by around nine points from 1986. Vauxhall had over one-quarter of fleet sales in 1990, its highest share during the period. Rover's share has fluctuated: in 1990 it was around 20 per cent, higher than 1986, 1987 and 1989 but lower than 1988. Of the other suppliers, Peugeot has made the largest gain (as in the market as a whole): in 1990 it held just over 4 per cent of fleet sales compared with less than 1 per cent in 1986.

4.61. The reliance of the main suppliers on fleet sales is shown in Table 4.17 together with the variation by model range of sales to fleet operators.

TABLE 4.17 **Major suppliers' fleet sales as a proportion of their total sales, by make and model range, 1986 to 1990**

	1986	*1987*	*1988*	*1989*	*1990*
Ford	44	46	50	45	45
Fiesta	25	29	34	31	28
Escort	41	40	42	39	39
Sierra	63	66	68	59	67
Granada	71	73	70	67	74
Vauxhall	46	49	52	54	60
Nova	15	19	23	26	30
Astra	42	40	49	52	56
Cavalier	60	65	65	67	73
Carlton	62	70	72	72	76
Rover	30	37	46	47	50
Metro	21	25	29	26	32
Maestro	31	36	45	47	48
200 Series	33	47	59	58	53
Montego	48	54	66	66	74
800 Series	59	56	62	72	76
Peugeot	4	9	17	23	25
205	0	8	12	14	15
309	12	12	16	18	20
405	N/A	N/A	30	38	42
505	N/A	N/A	N/A	N/A	25

Source: MMC calculations on data supplied by the companies.

4.62. In 1990 fleet sales accounted for around one-half of the new car registrations of Ford and Rover and 60 per cent of those of Vauxhall. The proportion of fleet sales in Ford's total registrations has remained fairly stable; for Vauxhall the proportion has gradually increased from 46 per cent in 1986 to 60 per cent in 1990; for Rover the proportion has increased markedly from 30 per cent in 1986 to 50 per cent in 1990. Peugeot effectively entered this part of the market only some five years ago and has been so successful that by 1990 fleet sales formed 25 per cent of its total. This success appears to be mainly due to the launch of its 405 model, for which 42 per cent of registrations were fleet sales, and its 505, for which 25 per cent were fleet sales.

4.63. Fleet sales are even more important for particular model ranges than for individual suppliers. Table 4.17 and Figure 4.10 illustrate this. The latter shows the proportion of the registrations accounted for by fleet and non-fleet sales for the top five model ranges in 1990. Fleet sales account for the highest proportions in the case of the Cavalier (73 per cent) and the Sierra (67 per cent), with much lower proportions for the Fiesta (28 per cent) and the Escort (39 per cent), with the Astra (56 per cent) in between.

4.64. The BVRLA estimates suppliers' shares of the daily rental fleet market (which includes short-term rental fleets of cars, car-derived vans and minibuses). For mid-1990 it estimated that Ford had a share of 40 per cent, Rover 27 per cent and Vauxhall 18 per cent, giving the leading three suppliers an aggregate share of 85 per cent of this market, which compares with their 83 per cent share of the total fleet market and 56 per cent share of the total new car market. Based upon information supplied to us by the companies, we estimate that Ford had just over 50 per cent of the daily rental new registrations in 1990, followed by Rover with 25 per cent and Vauxhall with 17 per cent. Eurodollar and Hertz, two of the leading daily rental companies, told us that most of their fleets were supplied by Ford and Vauxhall.

Non-fleet sales

4.65. Table 4.18 shows the shares of all non-fleet sales by supplier for the period 1986 to 1990. Compared with the position in the market as a whole Ford not only remains the leader (with 22 per cent in 1990) but is further ahead of its nearest rivals, General Motors and Rover (both with 11 per cent). There is also little difference between those last two suppliers and PSA (at 10 per cent), with Nissan and Volkswagen each having only a slightly lower share (7 and 6 per cent respectively).

4.66. As for changes over the period Ford's market share has been reasonably stable, unlike the situation in the fleet sector. The largest change was the four percentage point fall experienced by Rover.

Production, exports and imports

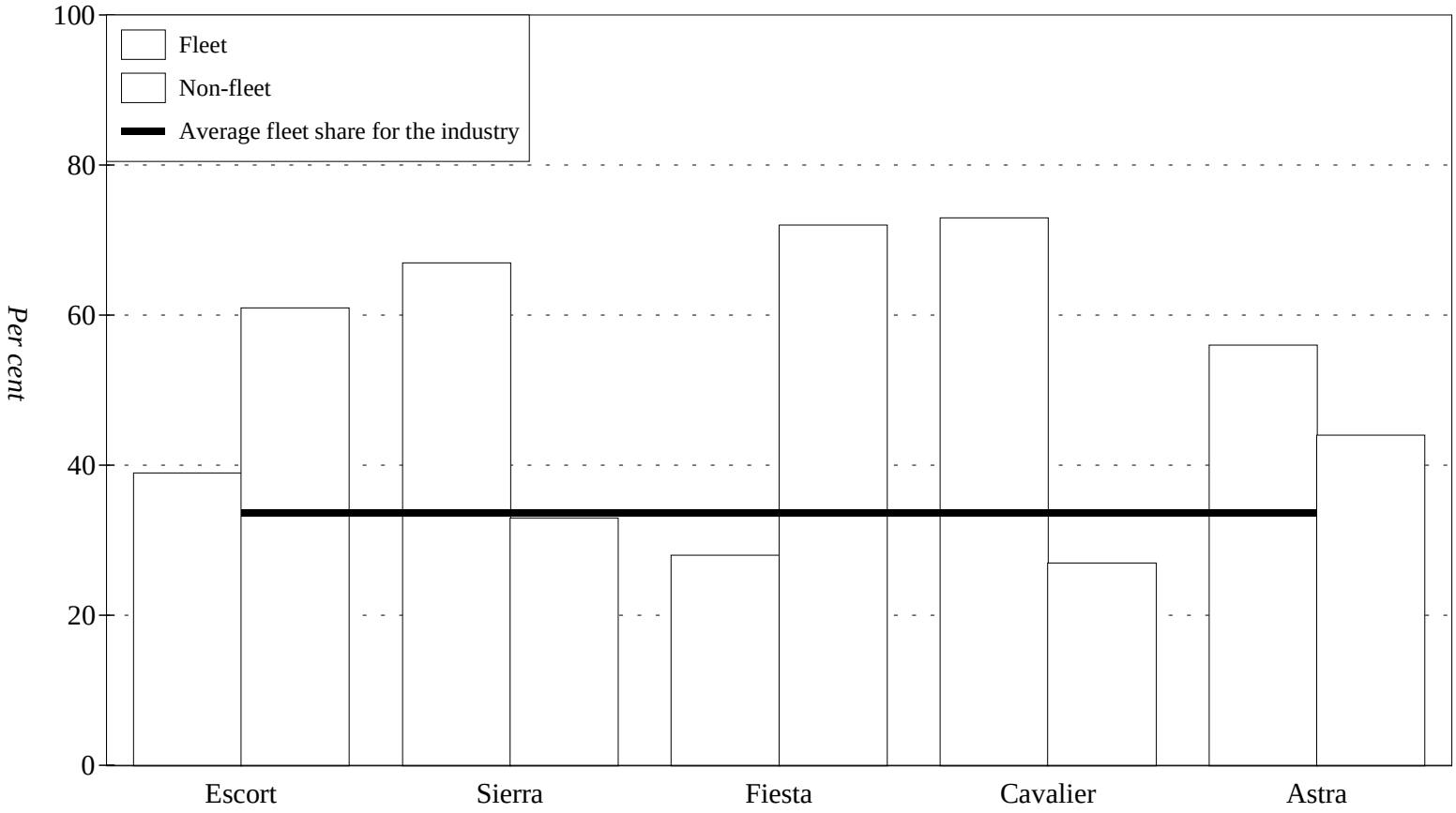
4.67. As described in Chapter 3, many of the large car producers organise their production on an international basis, and there is a substantial trade in cars, particularly between European countries. There will often be little relationship therefore between production and sales in a given country. In the United Kingdom the level of production is much lower than sales. In 1990 the United Kingdom accounted for slightly less than 10 per cent of the total EC production, but for around 15 per cent of EC sales.

Production in the United Kingdom

4.68. The level of production of new cars in the United Kingdom is shown in Table 4.19. In 1990 Rover was the largest producer accounting for 36 per cent of production in the United Kingdom, followed by Ford at 29 per cent, and Vauxhall at 20 per cent. The relative newcomers, Peugeot and Nissan Motor Manufacturing (UK) Ltd (NMUK), had 9 and 6 per cent respectively. All these suppliers apart from Ford were producing more in 1990 than they were in 1986.

FIGURE 4.10

Proportion of United Kingdom registrations of the top five model ranges in 1990 accounted for by fleet and non-fleet sales



Source: MMC survey.

TABLE 4.18 **Shares of United Kingdom new non-fleet registrations, 1986 to 1990**

per cent

Make	*1986*	*1987*	*1988*	*1989*	*1990*
Ford Group	*22*	*23*	*21*	*23*	*22*
Ford	21	22	20	22	21
Jaguar*	1	1	1	1	1
General Motors	*12*	*11*	*11*	*11*	*11*
Vauxhall	11	10	10	10	10
Saab	1	1	1	1	1
Lotus	†	†	†	†	†
Rover Group	*15*	*13*	*12*	*11*	*11*
Rover	15	13	12	11	10
Land Rover	†	†	†	†	1
PSA	*8*	*10*	*10*	*10*	*10*
Peugeot	6	7	7	7	7
Citroën	2	3	3	3	3*
Volkswagen	*6*	*6*	*6*	*6*	*8*
Volkswagen	5	5	5	5	6
Audi	†	†	†	†	1
SEAT	†	1	1	1	1
Nissan	8	8	8	8	7
Renault	4	4	5	4	4
Volvo	5	5	5	5	5
Fiat	4	4	5	4	4
BMW	2	2	3	3	3
Toyota	3	3	3	3	3
Mercedes-Benz	1	2	2	2	2
Lada	2	2	2	2	2
Honda	2	2	2	2	2
Mazda	2	1	2	2	2
Skoda	1	1	1	1	1
Mitsubishi	1	1	1	1	1
Zastava	1	1	1	†	†
Proton	N/A	N/A	N/A	†	1
Suzuki	†	†	†	†	†
Subaru	†	†	†	†	†
Hyundai	1	1	1	1	1
Alfa Romeo*	†	†	†	†	†
Isuzu	N/A	†	†	†	†
FSO	†	†	†	†	†
Daihatsu	†	†	†	†	†
Porsche	†	†	†	†	†
Lancia	†	†	†	†	†
Rolls Royce	*†*	*†*	*†*	*†*	*†*
Rolls Royce	†	†	†	†	†
Bentley	†	†	†	†	†
Maserati*	†	†	†	†	†
Reliant*	†	†	†	†	†
Panther*	†	†	†	†	†
Other imports*	†	†	†	†	†
Other domestic production*	†	†	†	†	†
Others-total*	†	†	†	†	†
Total (volume) (million)	1.36	1.41	1.49	1.54	1.33
Total‡	100	100	100	100	100

Source: MMC calculations on SMMT and company data.

*Estimate.
†Less than 0.5 per cent.
‡Totals may not sum because of rounding.

TABLE 4.19 **United Kingdom car production by make, 1986 to 1990**

'000

Make	*Model range*	*1986*	*1987*	*1988*	*1989*	*1990*
Rover Group (total)		*405.0*	*471.6*	*473.7*	*467.0*	*461.0*
Rover Cars (incl Honda) (total)		*390.5*	*450.8*	*449.7*	*434.8*	*413.7*
Land Rover (total)		*14.5*	*20.8*	*24.0*	*32.2*	*47.3*
Rover Cars	Mini	33.7	37.2	36.6	41.0	46.0
	Metro	153.2	158.1	140.9	135.1	108.4
	Rover 200	62.6	76.3	92.1	85.3	-
	Rover 200/400	-	-	-	11.5	131.6
	Maestro	50.8	44.7	47.7	42.2	21.0
	Montego	70.6	73.4	78.8	76.6	50.7
	Large cars*	18.4	54.4	48.6	39.4	29.5
Honda†		1.1	6.7	5.0	3.8	26.4
Land Rover	Discovery	-	-	-	3.8	23.1
	Range Rover	14.5	20.8	24.0	28.5	24.2
Ford Group (total)		*383.6*	*431.2*	*427.1*	*431.3*	*372.1*
Ford (total)		*342.0*	*383.0*	*375.0*	*383.0*	*330.0*
Jaguar		41.4	48.0	51.9	48.1	41.9
Aston Martin‡		0.2	0.2	0.2	0.2	0.2
Ford	Fiesta	110.0	106.0	94.0	110.0	187.0
	Sierra	91.0	93.0	100.0	84.0	25.0
	Escort	111.0	122.0	120.0	140.0	88.0
	Orion	30.0	62.0	61.0	49.0	30.0
Vauxhall (total)		*161.9*	*184.2*	*176.0*	*208.5*	*256.7*
	Cavalier	87.8	94.5	87.0	121.1	151.3
	Astra/Belmont	74.1	89.7	89.0	87.4	105.4
Peugeot		*46.0*	*46.3*	*77.6*	*107.5*	*116.5*
	309	46.0	41.8	21.0	4.0	-
	405	-	4.5	56.7	103.5	116.5
NMUK§		5.1	28.8	56.7	77.0	76.2
Rolls Royce (total)		*2.5*	*2.7*	*3.0*	*3.3*	*3.3*
	Rolls Royce	1.8	1.8	1.8	1.6	1.5
	Bentley	0.7	0.9	1.2	1.6	1.7
Others‡		17.8	7.2	6.1	5.5	7.0
Grand total¶¤		1,021.9	1,172.1	1,220.4	1,300.0	1,292.8

Source: MMC calculations on data supplied by the SMMT and companies.

*`Large cars' includes: Rover 800, 2600 and 3500.
†Includes Honda Ballade, Concerto and Legend.
‡Source: SMMT.
§NMUK production in the United Kingdom was for the Bluebird to 1989 and then the Primera.
¶Grand totals differ from the published SMMT total, and from the DRI-derived total in Table 3.1.
¤Totals may not sum because of rounding.

The largest volume for a single model range was the 187,000 Fiestas produced by Ford. There were five other model ranges produced at levels of over 100,000 vehicles: Rover's Metro and the 200/400 series, Vauxhall's Cavalier and Astra, and Peugeot's 405.

4.69. Production in the United Kingdom is due to increase substantially over the next few years as a result of investment by the leading three Japanese suppliers. The output of Japanese cars in the United Kingdom by 1995 is expected to reach around 550,000 with NMUK expecting to produce around 250,000, Toyota some 200,000 and Honda at least 100,000. Expectations of large increases in the Japanese share of EC markets have led several existing European producers, including the leading suppliers in the United Kingdom, to set in train major programmes of production rationalisation in order substantially to reduce costs.

Productivity

4.70. The quantification of levels of productivity in the car industry is attended by a number of statistical and practical problems. There are several possible measures, though none of them can provide a comprehensive indication of productivity. One that is frequently used and relatively easy to calculate is output per employee. However, the results are difficult to interpret if they are used to make comparisons between companies, let alone between individual plants. The main reason for this is the variety of production processes and plant outputs. For example, companies vary in the proportion of parts that they produce themselves and in the way they distribute production facilities between countries. To take account of all the measurement problems as well as ensuring consistency of treatment between companies would require a major investigative exercise into the production capabilities and processes of a large number of companies. We have not thought it justified to attempt a comparison of this kind, but have looked only at the way in which the productivity of the main producers has changed over time.

4.71. Table 4.20 sets out the changes in output per employee between 1986 and 1990 for the four largest United Kingdom manufacturers.

TABLE 4.20 **Indices of output per employee of the four largest car manufacturers in the United Kingdom, 1986 to 1990***

	1986	*1987*	*1988*	*1989*	*1990*
Ford	100	110	109	117	109
Vauxhall	100	125	126	146	178
Rover†	100	122	128	134	128
Peugeot	100	104	134	164	174

Source: MMC calculations on data supplied by the companies.

*1986 is the base of 100.
†Includes Land Rover.

4.72. Table 4.20 shows a large improvement in productivity over this period in the case of both Vauxhall and Peugeot. Ford's performance has varied from year to year. Rover improved its productivity significantly between 1986 and 1987, and by a smaller amount between 1987 and 1990. NMUK has not been included in the table for two reasons. First, production was at only a relatively low level at the start of the period and is still well below planned output levels. Secondly, the element of manufacturing, as opposed to assembly, increased substantially over the five years. In these circumstances the change in output per employee would not provide a realistic indication of changes in productivity.

4.73. The three leading manufacturers in the United Kingdom gave us an assessment of their productivity in the United Kingdom compared with that in other European countries. Ford told us that its costs of manufacturing in the United Kingdom are higher by a considerable margin than its costs on the Continent. Vauxhall told us that, compared with the productivity of its sister companies in other European countries, its Luton plant is extremely competitive, whereas Ellesmere Port is not so competitive. Rover told us that in terms of its own internal best practice, measured by hours to produce a car, it sees itself as fully competitive with other European plants, but in terms of other costs, it is disadvantaged by its low scale of output.

Exports

4.74. Table 4.21 shows the proportion of cars produced by the leading manufacturers in the United Kingdom which went to the home market and those that were exported between 1986 and 1990.

TABLE 4.21 **Destination of United Kingdom production: home or export, 1986 to 1989***

	1986	*1987*	*1988*	*1989*	*1990*
Percentage of home production destined for:					
Home market	86	85	84	80	72
Export	14	15	16	20	28

Source: MMC calculations on data supplied by the companies.

*Covers cars produced by Ford, Rover, Vauxhall, NMUK and Peugeot.

For the major United Kingdom manufacturers, the number of cars exported from the United Kingdom increased by over 140 per cent between 1986 and 1990. Around 40 per cent of exports in 1990 went to France. Table 4.22 sets out a full breakdown of the destination of United Kingdom output.

TABLE 4.22 **Destination of United Kingdom major suppliers' new car output by country, 1986 to 1990***

'000 cars

	1986	*1987*	*1988*	*1989*	*1990*
Belgium/Luxembourg	8.0	6.4	7.7	13.8	20.2
Denmark	0.5	0.9	0.4	0.2	1.9
France	41.3	43.6	64.4	105.6	131.7
Greece	0.9	3.2	1.6	0.5	2.2
Ireland	5.8	8.8	12.3	11.4	14.3
Italy	24.1	21.2	22.0	21.3	56.0
Netherlands	8.3	5.8	6.6	8.3	12.6
Portugal	7.0	6.9	9.8	5.9	6.5
Spain	9.0	14.1	15.1	18.0	24.7
West Germany	16.2	17.1	9.2	16.9	27.7
United Kingdom	845.1	926.1	978.7	972.6	841.4
Total Europe†	966.2	1,054.1	1,127.7	1,174.6	1,139.2
Rest of world	16.2	42.2	40.5	44.3	34.0
Total†	982.4	1,096.3	1,168.2	1,218.9	1,173.2

Source: MMC calculations on data supplied by the companies.

*Covers cars produced by Ford, Rover, Vauxhall, NMUK and Peugeot.
†Totals may not sum because of rounding.

4.75. Car producers have differing strategies for the location of manufacture and this is shown in Table 4.23 which sets out the proportion of output of the large suppliers that was exported from the period 1986 to 1990. Of the top three suppliers only Rover Cars exported a sizeable proportion of its United Kingdom output (30 per cent in 1990). Both the other leading suppliers increased their exports in 1990 by between nine and ten percentage points. Peugeot exported over 70 per cent of its United Kingdom output, mainly to France.

TABLE 4.23 **Percentage of United Kingdom output exported, by supplier, 1986 to 1990**

per cent

	1986	*1987*	*1988*	*1989*	*1990*
Ford	1	1	2	1	10
Rover Group:					
Rover Cars	28	32	29	28	30
Land Rover	70	76	74	73	70
Vauxhall	0	3	1	1	11
Peugeot	17	12	31	62	72
NMUK	0	6	18	46	78

Source: MMC calculations on data supplied by the companies.

Imports

4.76. In recent years the level of imports has been high and they have mainly come from Europe. Table 4.24 shows the percentage of the United Kingdom new car market accounted for by imports between 1986 and 1990.

TABLE 4.24 **Market share of United Kingdom imports, 1986 to 1990**

per cent

	1986	*1987*	*1988*	*1989*	*1990*
Imports	55.7	51.6	56.5	56.9	56.7
Of which Japanese	11.3	9.8	9.5	9.3	10.1

Source: MMC calculations on SMMT and companies' data.

4.77. Imports reached their highest level of 56.9 per cent in 1989. The low figure of 51.6 per cent in 1987 was at least in part because Ford sourced only 31 per cent of its United Kingdom registrations from abroad that year compared with 36 per cent in 1986 and 43 per cent in 1988.

4.78. Japanese makes accounted for just over 11 per cent of the total market during 1986 to 1990. Imports accounted for nearly all these sales but the level has fluctuated (from just over 11 per cent in 1986 to around 10 per cent in 1990 and just over 9 per cent in 1989). The difference between sales and imports is NMUK's production in the United Kingdom. Suzuki has sourced some of its United Kingdom registrations from Spain rather than importing from Japan, and Nissan UK has also imported from Spain. Chapter 9 considers further the level of Japanese imports and Japanese production in the United Kingdom in the light of the VERs that have existed since 1975 and the new arrangements that are now in view following discussions between the EC and the Japanese Government.

4.79. Table 4.25 shows the leading imports by make in 1990. Ford accounted for just over 18 per cent of imports, with Volkswagen, Vauxhall and Peugeot also accounting for substantial volumes. The Japanese car makers together accounted for just under 18 per cent.

TABLE 4.25 **Share of United Kingdom imports, by make 1990**

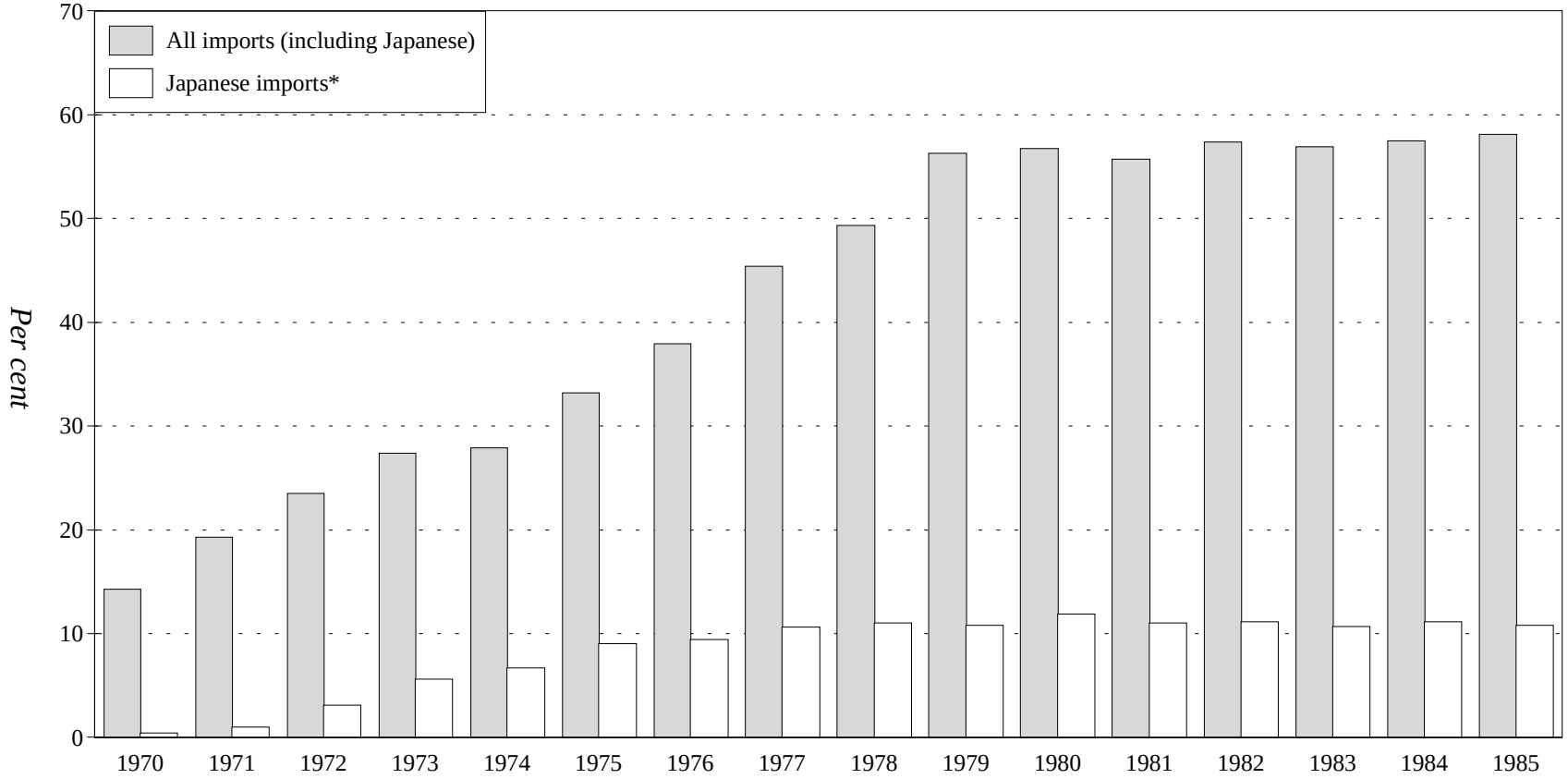
Make	*Percentage*
Ford	18.1
All Japanese	17.7
Volkswagen	11.0
General Motors	9.8
Peugeot	8.2
Renault	5.9
Citroën	5.3
Fiat	4.8
Others	19.2
Total	100.0

Source: MMC calculations on SMMT data.

4.80. The current position whereby imports account for a little more than half of the market and the Japanese take an overall share of around 10 per cent has in fact been the case for the last decade or so. Figure 4.11 shows the trends in import shares between 1970 and 1985. Import penetration passed the 50 per cent mark in 1979. In 1976 it had been less than 40 per cent, in 1974 less than 30 per cent, and in 1971 it was less than 20 per cent. Japanese imports had grown from virtually nothing in 1970 to 9 per cent in 1975 and remained around this level.

FIGURE 4.11

Proportion of United Kingdom new car registrations accounted for by all imports and by Japanese imports,* 1970 to 1985



Source: MMC calculations on SMMT data.

*For 1970 and 1971 Japanese imports exclude Mazda.

4.81. Between 1970 and 1975 registrations of imports into the United Kingdom increased by 160 per cent from 154,000 to 397,000 (an annual average growth rate of 21 per cent). 43 per cent of this increase was accounted for by imports from Japan and very little by Ford or General Motors. Between 1975 and 1985 imports increased by 170 per cent from 397,000 to 1,065,000 (an annual average growth rate of 10 per cent). That increase in imports (at 668,000) was nearly three times the increase between 1970 and 1975. Nearly one-third of the increase in imports in the second period was accounted for by Ford, nearly one-quarter by General Motors, and only 14 per cent by Japanese companies. Table 4.26 shows the increase in imports by supplier between 1970 and 1975 and between 1975 and 1985.

TABLE 4.26 **Share in growth of United Kingdom new car imports, by make, 1970 to 1985**

Percentage share

	1970 to 1975	*1975 to 1985*
Ford	0.3	32.0
General Motors	3.3	23.6
Japanese*	42.6	13.5
Volkswagen (excl SEAT)	0.6	8.3
Peugeot	5.4	5.4
Citroën	7.5	0.8
Fiat	6.1	2.4
Renault	10.5	2.1
Others	23.7	11.9
Total	100.0	100.0
Total (volume) ('000)	243	668

Source: SMMT.

*Share is slightly overestimated as Mazda's registrations in 1970 are included with `others'.

The product and product diversity

4.82. The diversity of products in the car market is widely known. Cars vary by size, style, function, engine power, and a host of more minor aspects. As explained in paragraph 4.16, the first step in categorising the products is the division into market segments. Car makers tend to concentrate their efforts by having only one model range in each segment. Competition between car makers is focused on the relative attractiveness to customers of the rival model ranges in each segment. This is not, however, to say that all cars can neatly be allocated to segments. As in other markets there are many specialist niches too.

4.83. The model range can be analysed at progressively greater levels of detail. Car makers do not, unfortunately, use the same nomenclature for the different levels. The terms we have adopted are: make, model range, model, model variant, and variation-each being progressively more detailed. By way of illustration, `Ford' is a make; the `Escort' is a model range; the `Escort 1.3L' is a model; and the `Escort 1.3L 3-door' is a model variant. Further subdivisions, for example on the basis of transmission (automatic or manual), fuel type (petrol or diesel), and body style (estate, saloon, hatchback, coupé, and convertible), are referred to as variations.

4.84. There is also considerable variation in the way car makers reflect this technical diversity in their marketing. For example, one car maker may use different names for different styles within a single model range whilst another may use the same name but point out that different body styles are available. Examples of the former approach are Ford with the Sierra/Sierra Sapphire, and Rover with the 200/400 series. An example of the second approach is Vauxhall with the Cavalier, which it supplies as both a hatchback and a saloon. Estate cars are usually known by the same name as applies either to the hatchback or the saloon.

4.85. The range of choice open to the purchaser is even wider than is indicated by the product analysis set out in paragraphs 4.68, 4.91 to 4.94 and 4.96, as `optional extras' are available. The purchaser can be provided with a list of extras that can be added to a particular car in the model range. Some extras, which may require engineering modifications to the car, for example air conditioning, are usually added at the supplier's factory during the assembly process. Other extras, such as minor accessories, can be added by the dealer.

Model ranges

4.86. In 1990 there were nearly 200 model ranges available in the United Kingdom and this was little different from the 1986 position. During this period the number of models increased from around 600 to around 700. Most of the top 15 suppliers either increased the number of models available or the average number of models per model range. Appendix 4.3 provides a full list of model ranges and models available in this period. The relationships of model ranges, models and model variants is discussed further in the context of price in paragraphs 7.48 to 7.63.

4.87. Table 4.27 shows the top ten model ranges in 1990 firstly for the market as a whole and then separately for fleet and non-fleet sales.

TABLE 4.27 **Top ten model ranges in the United Kingdom market and for fleet and non-fleet sales in 1990**

	Total market		*Fleet sales*		*Non-fleet sales*	
	Position	*%*	*Position*	*%*	*Position*	*%*
Ford Fiesta	1	7.6	5	6.1	1	8.2
Ford Escort	2	7.1	4	8.3	2	6.5
Vauxhall Cavalier	3	6.9	1	15.0	10	2.8
Ford Sierra	4	6.4	2	12.7	6	3.2
Vauxhall Astra	5	5.0	3	8.4	5	3.3
Rover Metro	6	4.0	8	3.8	3	4.2
Rover 200	7	3.1	6	4.9	12	2.2
Vauxhall Nova	8	2.7	12	2.5	9	2.9
Ford Orion	9	2.6	10	3.0	11	2.3
Peugeot 205	10	2.5	17	1.1	7	3.2
Nissan Micra	11	2.4	30	0.3	4	3.5
Volkswagen Golf	12	2.4	16	1.2	8	3.0
Rover Montego	13	2.2	7	4.8	28	0.9
Ford Granada	15	1.7	9	3.7	36	0.6
Registrations (million)		2.0		0.7		1.3

Source: MMC calculations on data supplied by the companies.

4.88. There is clearly a substantial difference in regard to the market shares of individual model ranges between fleet and non-fleet sales. Some cars, like the market leader (the Fiesta), are well represented in both fleet and non-fleet. Others such as the Cavalier are much more popular for fleet use. Choice is also more concentrated on the fleet side: the top two model ranges in the fleet sector accounted for over 27 per cent of fleet registrations and the top four for 44 per cent, whereas the comparable figures for non-fleet sales are 15 and 22 per cent.

4.89. Nevertheless the top five model ranges in the market as a whole all feature in the top five positions in the fleet sector; the Fiesta, Escort and Astra are in the top five positions in the non-fleet sector; the Sierra is in sixth position and the Cavalier is in tenth position. The Nissan Micra (which just falls outside the top ten positions in the total market) is well represented in non-fleet sales but poorly represented in fleet-and this would not seem to be because it is a small car, in view of the comparative success of the Fiesta and the Metro in fleet sales.

4.90. A noteworthy point is that there has been very little change in the top ten positions for the total market over five years (1986 to 1990).

Models

4.91. As indicated earlier, the number of models within a model range varies both between suppliers and over time. In both 1986 and 1987 Ford had a total of six model ranges and five thereafter in any one given year, but increased the number of its models from 56 in 1986 to 77 in 1989- reflecting primarily the addition of the Sapphire to the Sierra range and the increase in the number of Granada models (eight in 1986 rising to 16 in 1989). Vauxhall reduced its number of model ranges from eight in 1986 to six in 1989. Although the number of Vauxhall models fell over the same period from 49 to 45, the average number of models per model range increased from just over 6 to 7.5. Rover reduced the number of its model ranges from eight to seven between 1987 and 1989. The total number of models declined from 52 to 48 maintaining an average of seven models per model range.

4.92. Within a given model range the market shares differ greatly by trim level. We have classified three high-selling model ranges-the Ford Fiesta in the small segment, the Ford Escort in the lower medium segment and the Vauxhall Cavalier in the upper medium segment-into model groups on a trim-level basis. In the case of the Fiesta and the Escort we have separated out `special edition' models. 1990 sales of the Fiesta and the Escort by trim level are shown in Table 4.28, together with shares of sales of the whole model range.

TABLE 4.28 **United Kingdom sales by model of Ford's Fiesta and Escort, 1990**

	Escort		*Fiesta*	
	Sales	*Share*	*Sales*	*Share*
Model	*'000 units*	*%*	*'000 units*	*%*
Base models	14.7	10	61.2	40
L	40.2	28	3.8	3
LX	16.0	11	38.8	26
GL/GLX	6.2	5	-	-
`Sport' and luxury models	25.3	18	36.4	24
Special edition models	39.7*	28*	11.3†	7†
Total	142.1	100	151.5	100

Source: MMC calculations on SMMT data.

*Includes Bonus and Eclipse.
†Includes Finesse, Bonus, Festival, Firefly and Olympus.

For the Escort the table shows that apart from special editions the `L' trim level is by far the best-selling, but that Ford has also succeeded in attracting substantial sales at the high-specification end of the range. For the Fiesta, base models are the best sellers with substantial sales for the `LX' and the high-specification end of the range.

4.93. The distribution of the sales of Vauxhall's Cavalier models is set out in a similar way in Table 4.29.

TABLE 4.29 **United Kingdom sales by model of the Vauxhall Cavalier, 1990**

	Sales	*Share*
Model	*'000 units*	*%*
Base models	3.0	2
L	66.2	48
GL/GS	40.8	30
`Sport' and luxury models	28.3	20
Total	138.3	100

Source: MMC calculations on SMMT data.

The pattern of sales of the Cavalier is somewhat different from that of the Escort, but the `L' trim level is again the largest seller.

4.94. As for model variants there were over 1,200 available in the United Kingdom in 1990. The top ten model variants in 1990 are shown in Table 4.30.

TABLE 4.30 **United Kingdom top ten model variants in 1990**

Make	*Position in market*	*Percentage of market*	
Cavalier 1.6 L 5-door	1	1.4	
Micra 1.0 LS 3-door	2	1.4	
Fiesta 1.0 3-door Popular	3	1.4	
Escort Eclipse 1.3 5-door LX	4	1.2	
Fiesta 1.1 5-door LX	5	1.1	
Sierra 1.8 5-door LX	6	1.1	
Fiesta 1.6i 3-door XR2i	4	0.9	
Fiesta 1.1 3-door LX	8	0.8	
Rover 214 SLi		9	0.8
Fiesta 1.1 5-door Popular Plus	10	0.8	
Total market (million units)	2.0		

Source: MMC calculations on data supplied by the companies.

4.95. It is noticeable that there is little difference in the proportion of the total market accounted for by individual top variants: the top six variants each account for over 1 per cent of the total market with those in the following 20 positions being separated by less than half of one percentage point. There are moreover often large changes over only two or three years in the volume of sales of a variant. Given the frequent changes in specification that form part of the competitive process it is not perhaps surprising that particular model variants last only two or three years. The relationship between model variants within a model range is considered in respect of pricing in Chapter 8.

4.96. The market shares of particular model variants differ considerably, however, within a model range as well as by comparison within other model ranges. There is also a wide range in the number of model variants within a model range. This is shown in Table 4.31 which provides details of the top six model ranges in 1990 for the period 1986 to 1990. In 1990 the number of model variants for the top five model ranges has increased: by 13 for the Sierra; eight each for the Escort and the Astra; seven for the Cavalier; and three for the Fiesta. The number of Metro model variants fell from 16 to 12. The smallest number of variants during the period was 11 (for the Fiesta in 1986 and 1987). The largest number of variants was for the Sierra (including the Sierra Sapphire) which had 39 variants available in 1990.

TABLE 4.31 **United Kingdom top six model ranges, by model variant numbers and shares, 1986 to 1990**

	1986	*1987*	*1988*	*1989*	*1990*
Escort					
Number of model variants	15	19	18	20	28
Share of top variant (%)	12	11	12	13	16
Share of top 3 variants (%)	30	31	32	34	35
*Sierra**					
Number of model variants	15	16	29	26	39
Share of top variant (%)	16	11	10	9	18
Share of top 3 variants (%)	37	27	24	23	33
Fiesta					
Number of model variants	11	11	14	16	19
Share of top variant (%)	19	20	18	15	18
Share of top 3 variants (%)	52	53	52	33	44
Cavalier					
Number of model variants	21	21	29	20	27
Share of top variant (%)	22	25	25	18	21
Share of top 3 variants (%)	41	45	40	40	40
Astra					
Number of model variants	13	15	15	16	24
Share of top variant (%)	11	12	17	12	15
Share of top 3 variants (%)	25	33	38	27	26
Metro					
Number of model variants	15	15	14	16	12
Share of top variant (%)	17	18	18	20	11
Share of top 3 variants (%)	39	41	38	36	26

Source: Company price lists and MMC calculations on data supplied by the companies.

*Increase from 1988 reflects introduction of the Sierra Sapphire.

4.97. While the total number of model variants offered by the main suppliers may not have changed much over the last few years, there has been a very large change over the last two decades. We compared the number of model variants offered by each of five suppliers (Ford, Vauxhall, Renault, Fiat and BMW) in 1990 with the number offered in 1970. In all cases the number of variants more than doubled over the period, and for Vauxhall, Renault and BMW it increased more than sixfold.

Effects of driving on the left

4.98. We have discussed a number of technical factors which tend to segment the market for cars in the United Kingdom. Those covered by type approval should disappear in January 1993, when it is expected that an EC regime will be introduced. Those remaining, with one exception, will not be a significant barrier to personal imports of cars from one member state of the EC to another. The exception (which extends to the Republic of Ireland, the Isle of Man, and the Channel Islands, in addition to the United Kingdom) is the practical need (although not a legal requirement) to use RHD vehicles on roads in the British Isles, reflecting legal requirements to drive on the left. Within the EC such requirements are unique to the British Isles. Thus, although anyone in the EC will be free quite shortly to purchase a car, in the words of the Notice on EC Regulation 123/85, `wherever prices and quality are most advantageous to him', and use it freely on the roads of his own country, this freedom will not necessarily extend to motorists resident in the British Isles unless they are willing to drive LHD cars.

4.99. Motorists in the British Isles who perceived advantages of price and quality in cars sold elsewhere in the EC would therefore still have to make use of the provisions of EC Regulation 123/85 (see Appendix 6.2) which are designed to assist imports by individuals of cars with the appropriate specification for their home country. RHD is not mentioned in the Regulation but the requirement is set out, in paragraph 1(1) of the accompanying Notice, that the supplier must make available any `volume-produced passenger car … in the form and specification marketed by the manufacturer or with his consent in that member state' (ie the member state in which the car is to be registered).

4.100. If the rule of the road were different this disadvantage would disappear. We therefore looked, very briefly, at whether any consideration had been given to the feasibility of changing the rule within the United Kingdom.

4.101. DTp told us that the question had been studied by a Working Party in 1966, and that the figures which it had used were updated in 1969; it provided us with a paper (see Appendix 4.4) that was based on the Working Party's study. This paper was prepared about 20 years ago but is still the basis for DTp's views. DTp said:

(a) The 1969 estimate of the cost of physical works needed at that time to effect a change to driving on the right was over £2 billion in 1991 prices. Since 1969 the road network had greatly changed.

(b) No estimate was available of the increased number, and cost, of road accidents. Swedish experience of changing to driving on the right, in 1967, was that the accident rate declined. (But we noted that in 1967 the Swedish vehicle parc was 2 million: in the United Kingdom now it is about 22 million. The United Kingdom population density now is 11 times the Swedish population density in 1967.)

(c) There would be a mixture of RHD and LHD cars on the roads for a considerable period. (We noted that even 20 years after the change there could still be 1 million RHD vehicles on the road, if the law permitted them.)

(d) The doors of the bus and coach stock (which we noted is, in total, about the same size now as it was in 1967) are positioned to allow passengers to alight on the side away from the traffic. The stock would therefore have to be modified or replaced. The cost is not known.

DTp's conclusion was that there appeared to be very high costs and little or no benefits in making the change to driving on the right.

4.102. Since it is reasonable to conclude that RHD cars will remain the norm in the United Kingdom for a long time to come, it was necessary to find out whether the provision of RHD car models specifically for the United Kingdom by manufacturers of predominantly LHD cars (or equivalently, vice versa) might lead to extra costs.

4.103. Accordingly we sought information from suppliers and commissioned a report from consulting engineers (see Appendix 4.5). This report concluded, *inter alia*, that in virtually all cases the addition of an RHD variant to a manufacturer's model range led to a reduction in overhead costs per vehicle for LHD and RHD variants taken together.

4.104. Both Ford and Vauxhall told us that cost differences between RHD and LHD versions of the same model were unlikely to be significant. The major Japanese manufacturers told us that they did not distinguish between LHD and RHD versions as regards cost of production. Rover said that there was no reason to attribute to RHD vehicles the incremental costs of producing both versions rather than RHD only.

4.105. On the other hand, Fiat, BMW, Mercedes-Benz and Renault said that they incurred significant additional design development and tooling costs for adding RHD versions to predominantly LHD model ranges. However, the United Kingdom is an important market for these as well as other manufacturers and, on the basis of the costs quoted, extra sales of RHD cars amounting to 10 per cent of LHD sales could easily result in the marginal cost of RHD being more than offset by spreading the fixed overheads over the extra production.

4.106. On the basis of this evidence it would appear that if there is any justification for charging higher prices for RHD cars it can be only in respect of model variants which are sold in very small numbers indeed. We do not believe that such higher prices would constitute a general barrier to the distribution in the United Kingdom of RHD cars manufactured elsewhere in the EC.

Fiscal measures bearing on cars

4.107. There are six United Kingdom fiscal measures that bear on cars: import duty; Car Tax; Value Added Tax (VAT); vehicle excise duty; hydrocarbon duty; and taxation of the benefit of private use of a company car. It is only the last of these that is of importance in the context of our inquiry.

Import duty

4.108. Import duty of 10 per cent is payable on the imputed value of any new car not manufactured in the EC or EFTA. About 12 per cent of the new cars registered in the United Kingdom in 1990 came from such sources, chiefly Japan. Thus all new cars of EC and EFTA origin enjoy this competitive advantage within the EC markets. We have noted this factor in our consideration of Japanese competition.

Car Tax

4.109. Car Tax of 10 per cent is payable (normally at the time of sale) on all vehicles that are chargeable: the note by HM Customs and Excise at Appendix 4.6 gives a detailed account of the regime

and the basis for charge.[1] All the new cars discussed in this report are subject to Car Tax, so none is at a competitive disadvantage because of it (although its application enhances the effect of import duty).

VAT

4.110. VAT of 17.5 per cent is payable on the sale price (normally the actual price paid) of all new cars: see the annex to Appendix 4.6. Since all new cars are subject to it none is at a competitive disadvantage because of it (although its application enhances the effect of import duty).

Vehicle excise duty

4.111. This duty, better known as the annual licence fee, £100 in 1991/92, must be paid on all cars on the public highway. The regime previously in force charged rates that increased with engine size. Since the present duty is a flat rate for cars of all sizes it favours the larger model ranges, whether new or old.

Hydrocarbon duty

4.112. Hydrocarbon duty is included (but not identified) in the pump price of petrol and diesel fuel. The duty depends on the type and grade of fuel, but commonly accounts for about two-thirds of the pump price. Rates of duty are significantly lower on diesel fuel and on unleaded petrol.

Benefits of private use of a company car

4.113. The benefit of private use of a car provided by an employer to a director or employee earning more than £8,500 a year attracts a tax charge. One of our concerns has been whether, and if so to what extent, this private use, and the way in which the benefit of it is taxed, may have affected competition. A factual account of the development of this tax regime, and of possible methods of determining the level of the charges which have been suggested by commentators, is set out in a note by Inland Revenue at Appendix 4.7.

4.114. The non-private share of the United Kingdom new car market is discussed in paragraphs 4.21 to 4.41: it is estimated to lie between 50 and 70 per cent of the annual new car registration total, but we believe it to be about 55 per cent. A large proportion of these non-private cars are bought by public authorities, such as the police and fire services, solely for utilitarian purposes; or by Government departments, for use for official purposes only; or by the daily rental fleet operators, or large driving schools. But for the majority of non-private cars there is an element of private use. This element may be small where the car is a `tool of the trade', but where the car is a `perk' the amount of business use can vary within wide limits. Inland Revenue estimated that in 1990/91 there were about 2 million drivers who had private use of a company car: see Table 2, Appendix 4.7. About 10 per cent of them covered 2,500 miles or less on business; 61 per cent 2,501 to 17,999 miles; and 29 per cent 18,000 miles or more. Inland Revenue estimated that in 1989 cars whose users were subject to car benefit taxation represented 27 per cent of the United Kingdom new car market.

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[1] The law stipulates that the value of a chargeable vehicle for Car Tax is the price that, in the opinion of Customs, it would fetch if sold by a wholesaler to a retailer in the United Kingdom open market at the time the tax becomes due. A retailer in this context is someone who sells to the public and does not sell to a person whose business is selling vehicles. In arriving at this value it is assumed that the price is the sole consideration for the sale; the vehicle is delivered to the buyer at the retailer's premises; and the price does not include Car Tax or VAT. After consultation with the SMMT it was agreed that the standard value for Car Tax for new cars should be the manufacturer's or importer's recommended retail price (excluding Car Tax and VAT) less 16.33 per cent, provided that the manufacturer or importer makes regular sales of a particular model to his dealers and that the unconditional discount freely available to those dealers is a least 15 per cent. However, if the discount to dealers is under 15 per cent, the value for Car Tax is the recommended retail selling price (excluding Car Tax and VAT) less the actual percentage discount given. The Car Tax payable is unaffected by any discount that a dealer may give to the purchaser. Value for Car Tax includes:

(a) the value of standard accessories (ie those included in the registered supplier's specification and therefore in the basic selling price of the vehicle);

(b) the value of optional accessories fitted before the tax is due; and

(c) the cost of work (such as under-body sealing) carried out on the car before the tax is due.

4.115. A survey[1] in January 1991 suggested that in the United Kingdom about 80 per cent of those employees whose company provides them with a car have a choice of model: they are the `user-choosers' who are either allowed to choose from a range of models or given a cost limit within which they may buy the car of their choice: the range or the cost limit will vary with their status in the company. It was suggested to us by many witnesses that the exercise of this choice within the constraints of the scale charges (see Table 1, Appendix 4.7) led to an increase in the United Kingdom demand for high-specification cars, ie that the generality of `user-choosers' selected a model that was comfortably within a tax band limit but then ordered supplementary specifications that took the cost up to the limit; that a corollary of this was that higher-specified cars tended to cluster at the top of tax bands (particularly just below £19,250); and that the desire for higher-specification company cars affected the behaviour of the United Kingdom market at large, so promoting a general desire for higher-specification cars in preference to basic models.

4.116. VAG (UK), the importer of Volkswagen and Audi cars, told us that the tax increases in recent years had been such that over the next three years it expected that the number of company-funded car purchases would be reduced by some 25 per cent. VAG (UK) said that (in 1991/92) the taxable benefit was halved for users who required a car for more than 18,000 business miles a year. VAG (UK) thought it difficult to see why a car provided as part of the reward package should have any less value to the employee in terms of private use simply because it was also used for 18,000 miles driving on business. A similar argument applied to users who covered up to 2,500 business miles a year. VAG (UK) said that there was a strong United Kingdom market for cars of just under 1.4 litres and 2.0 litres in engine size, with high-specification options that took the price up to the £19,250 limit of the first tax band. Suppliers competed in offering such cars in the United Kingdom, although they seemed to have little appeal in other EC markets unaffected by the United Kingdom tax bands. VAG (UK) said that it made no difference from an employee's standpoint whether a car cost £19,250 or £29,000 (the next tax band limit). Hence there was almost no corporate business between £19,250 and about £24,000: users either chose a car costing less than £19,250 (in order to reduce tax liability) or chose a car costing about £24,000 and then maximised its specifications within the £29,000 limit.

4.117. The SMMT, in oral evidence, mentioned the Inland Revenue estimate that about 27 per cent of the United Kingdom new car market in 1989 had been taken up by company cars that attracted a tax liability for personal use. A recent survey had suggested that the size of the United Kingdom company car sector was a little higher than in Germany or the Netherlands but not a great deal out of line with other EC countries. It was wrong to link the existence of company cars in the United Kingdom with tax treatment.

4.118. The RMIF said that the industry supported the tax system because:

(a) it created a tax environment which was simple both to administer and understand;

(b) it minimised workload for the employee, employer and Inland Revenue;

(c) the use of averaged values appeared particularly appropriate in an environment where an individual's choice of car was usually partially, if not completely, restricted; and

(d) any move to impose more complex record-keeping on businesses, and upon employees, would run counter to the Government's objectives of reducing burdens on business.

4.119. The RMIF thought that the notional benefit values should be linked to the average cost of provision. This would offer Inland Revenue an objective basis for evaluation of the benefit value, and would bring the company car into line with other taxable benefits. The RMIF suggested that an excellent marker for assessing the cost of provision was available from the contract hire industry: its rates were freely available and, being the product of a highly competitive market-place, were pitched only marginally above the average true operational cost. On that basis the RMIF concluded (in January 1990) that the annual cost of provision in a typical case, say a Ford Sierra 1.6L, would be £3,030, and that if 50 per cent of the use were private then the cost for private mileage would be £1,515, which was well short of the then scale charge of £1,850. (We noted, however, that at the standard rate of income tax that applied in 1990/91 this scale charge would have generated a tax payment of only £463, which was clearly much less than the annual cost of owning a Ford Sierra.)

[1]Monks Partnership: *European Company Car Survey*.

4.120. We discussed the impact of the tax regime on specifications with Inland Revenue (see paragraphs 11.165 to 11.171). It said that, as to the type of car offered, the structure of the scales does not offer any fiscal incentive or impose any fiscal disincentive on either employers or employees to choose a model from the wide range of cars within each of the tax bands. But at the boundary of each band tax liability increases suddenly and there is a small number of models which are specifically equipped, priced and advertised to take best advantage of this-in particular, relatively highly-specified and often high-performance cars which cost just under the £19,250 threshold and with an engine capacity just below the 2,000 cc limit. Inland Revenue said that with such cars the relatively low tax charge was clearly seen as a selling point but added that in recent years price increases have taken many of these models over the £19,250 threshold after a time, so the advantage has been temporary, and that the number of these cars is small in relation to the whole company car market-none of the highest-selling fleet cars falls into this category.

4.121. The question of whether the benefit of private use of a company car is `fully taxed' (an expression which needs careful definition: see paragraphs 23 to 30 of Appendix 4.7) is of wide concern, with a corresponding range of points of view. Our concern is that if the benefit is less than `fully taxed' the company car share of the United Kingdom market may further increase, which might exacerbate such adverse effects for the private consumer as may be identified (see paragraphs 13.48 to 13.54). Inland Revenue said that the scale charges must be a matter for the judgment of the Government of the day, but that it has always been the general view of the present Government that so far as was practical there should be neutrality in taxation between paying cash and paying in kind. Inland Revenue identified for us some considerations that bear on a judgment of whether the benefit is appropriately taxed (see paragraphs 31 to 36 of Appendix 4.7).

4.122. We also noted a regressive element in the regime. For example, if an employee had the use of a company car costing, say, £15,000, in the 1.4 to 2.0 litre band, and had average business mileage of between 2,501 and 17,999 miles, his taxable benefit would be £2,650, ie 18 per cent of the price. If, however, the price was £19,250 the scale benefit would remain the same, but it would represent 14 per cent of the price. Similarly, the scale benefit, within the same mileage band, on a car priced at £19,251 would be £5,500 (29 per cent of the price); if the price was £29,000 the scale benefit would remain at £5,500, but this would represent 19 per cent of the price. The regressive effect might be an inducement to the employee to add specification items until the value reached the next threshold of the scale benefit.

4.123. We noted that in 1992/93, for the first time, employers' National Insurance contributions will take the private use benefit into account.

Type approval

4.124. Type approval provides a means for the appropriate authorities of making sure, without individual inspection, that new cars (with a small number of exceptions) are safe for use on the road. In the United Kingdom the implementation of the relevant law is the responsibility of the Vehicle Certification Agency of DTp. A note on the detailed requirements of the type approval regime is at Appendix 4.8.

4.125. At present there are different national type approval requirements in each of the EC member states, but it has been announced that an EC-wide regime will be introduced from 1 January 1993. This means that from that date every new car manufactured in the EC will be built to a common standard of structural and mechanical safety, by production processes that are conducted to common standards of good practice in all relevant respects. (This is not to be taken as implying that EC member states' current standards in these matters are unsatisfactory or unsafe, but since they differ from each other at present it is essential for each national authority to establish that each model range meets the national standards.)

4.126. The introduction of EC-wide type approval will produce significant savings for car manufacturers, and particularly for smaller companies. This is because several vehicles may be tested to destruction before a model range is certificated, and the process takes 18 months on average. In the context of our inquiry, however, the more important effect is that a major obstacle to commercial parallel importing will be removed: at present private parallel imports into the United Kingdom are exempt from the type approval regulations, but commercial parallel importers must comply with them. Once the EC-wide system is introduced this constraint will be lifted, although others arising from the distribution system will remain. Some minor regulatory requirements relating to the positioning of headlamps, foglamps and mirrors will presumably continue for as long as driving on the left remains the rule of the road in the United Kingdom. However, the adjustment needed to adapt a car to these requirements is not expensive and would not of itself be a significant barrier to parallel importing.