

4 Car suppliers' distribution arrangements for parts; and relevant legislation

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National sales companies

4.1. Some car manufacturers sell their cars, parts and other products in the United Kingdom through marketing divisions, some set up subsidiary companies for the purpose, others appoint independent companies. These divisions or companies are referred to in the industry as national sales companies (NSCs), but for the purposes of this report they are all 'suppliers'.

4.2. The United Kingdom car manufacturers have special divisions responsible for the sale of parts in the United Kingdom. By contrast the NSCs which distribute imported cars and their replacement parts are either subsidiaries of the manufacturers (eg BMW (GB) Ltd) or independent companies which have been given the sole right to import the manufacturers' cars and parts for resale within the United Kingdom (eg VAG (UK) Ltd). These latter companies are often known as 'concessionaires'.

4.3. The NSCs, whether marketing divisions of car suppliers or independent companies, carry out all the usual functions of a marketing company: undertaking market research, developing sales and service strategies, recommending product innovation and modification, conducting national promotion and

advertising campaigns, setting list and wholesale prices, establishing and maintaining the sales and distribution network and providing dealers with technical support, setting and monitoring sales targets and service levels, arranging deliveries of cars and replacement parts and ensuring that dealers keep adequate stocks. NSCs are in close and constant contact with their supplying company, usually the manufacturer. NSCs generally do not sell cars and parts to the public at large. They act chiefly as wholesalers selling to a network of selected dealers, although they do sell direct to certain categories of customers (see paragraph 4.41).

4.4. The remainder of this chapter focuses on the franchised dealer network, the relationship between it and the NSC, and legislation relevant to this relationship.

Dealer networks

4.5. New car suppliers generally use the same network of franchised dealers for both the sale and servicing of new cars and the distribution and sale of replacement car parts. A small number of dealers engage only in parts handling and car servicing and do not sell new cars. Dealers use the parts they obtain to service and repair cars themselves. They also sell to the public at large, to other dealers in the network and to the independent garage trade. When not prevented by their agreement with the supplier they can also sell to resellers in the independent aftermarket.

4.6. Franchised dealers are selected by suppliers after consideration of a number of factors, the most important of which are the existence of an appropriate 'open point'¹ in the supplier's distribution network, the location, size and quality of the premises available for the dealership, the dealer's experience and record in the motor trade, his local knowledge and reputation, financial soundness, business and management skills, and his commitment to the quality image of the brand name.

4.7. The importance of the franchised dealer network in the distribution of car parts and accessories is described in Chapter 3. All franchised dealers are obliged by the terms of their agreements with the supplier to have facilities to service and repair cars and to have the necessary premises, trained staff and control systems to handle the stocking, retailing, and where appropriate the wholesaling, of such a range and volume of parts as may be agreed between the dealer and the NSC.

4.8. Appendix 4.1 shows the numbers of dealerships of 33 suppliers over the ten years from 1 January 1982 to 1 January 1991. In that period the number of outlets fell from 8,697 to 7,737, whilst new car sales rose from 1.5 million (1982) to 2.3 million (1989) before falling back to 2 million (1990). The level of representation of most of the suppliers changed substantially in that time. It has fallen away further with the decline in sales in 1991.

4.9. The most notable features over the period were:

- (a) the major decline in dealerships representing the larger established United Kingdom volume car manufacturers (Ford, Vauxhall and Rover);
- (b) a less marked decline in the numbers of outlets representing other long-established suppliers;
- (c) a small decline in the number of dealers representing Japanese suppliers (although with large changes between marques); and
- (d) the entry and growth of four other non-Japanese suppliers (Yugo, SEAT, Hyundai and Proton) which by January 1991 had established 730 dealerships.

4.10. The organisation of dealer networks varies from one supplier to another. Most operate a single-tier system in which all dealers have a direct and equal relationship with the supplier but some (see footnote to the table in Appendix 4.1) have a two-tier system which comprises:

¹An 'open point' is a geographical area identified by the supplier as having the potential to sustain a dealership and for which the supplier wishes to appoint a dealer but has not yet done so.

- (a) main dealers appointed by and responsible to the supplier; and
- (b) retail dealers appointed by and responsible to the main dealers, provided that the supplier's consent is obtained to the appointment and to the contractual arrangements.

As mentioned in paragraph 4.5, there are a few dealerships which provide parts and service only, the main suppliers with service-only outlets being Renault, Rover and Fiat.

4.11. An analysis of the location of franchised dealers has shown, not surprisingly, that the main concentrations, representing the greatest variety of suppliers, coincide with the centres of high population density. However, almost all suppliers, including those of the more expensive and lower- volume makes, have a wide geographic spread although, as might be expected, some are thinly represented in rural areas.

4.12. Dealers may be companies, partnerships or sole traders and are usually corporately independent of their suppliers. A few suppliers own some of their dealerships but these are not significant overall in numbers or sales volumes.¹ Some dealer groups own a number of dealerships, with one or more suppliers' franchises or with different franchises and, although the majority of dealers own and operate a single outlet representing one supplier, the number of dealers holding more than one franchise (usually at different sites) is substantial.

4.13. The appointment of a franchised dealer and his business relationship with the supplier are regulated by a contract, generally referred to as a dealer agreement. The characteristics of the distribution system resulting from these dealer agreements, the legislation or regulatory framework relevant to them, and details of typical terms and conditions are described in the following sections.

The selective and exclusive distribution system

4.14. The system of distribution characterised by a direct link between manufacturers and dealers who specialise not only in the car trade but in particular makes of car has been established generally for 60 to 70 years. During this period there has evolved a structured but complex and interdependent relationship between car suppliers and dealers which gives the motor industry distribution system characteristics of both selectivity and exclusivity.

4.15. In a *selective distribution system* a supplier appoints a dealer who may resell its products to end-users without restraint but, if selling for the purposes of trade, may sell only to the outlets specified or approved by the supplier. The supplier's approval will depend normally on its judgment of the dealer's technical expertise, management ability, financial resources and the quality of his premises. Selective distribution is normally, in effect, a closed system of trading outlets. If the system is selective only, a supplier may appoint any number of dealers, wherever and in whatever proximity it wishes, and the dealer remains free to handle products from other suppliers, even competitive brands.

4.16. In an *exclusive distribution system*, however, a supplier agrees to supply specified products for the purposes of resale only to one dealer (or, in major conurbations, a specified number of dealers) situated in a designated area usually known as a territory. The grant of such an exclusive right is intended to focus the dealer's interest on the promotion of sales in the territory. In most cases the supplier itself lacks any sales organisation in the territory and relies on the appointment of such an exclusive distributor as the only effective way to achieve sales penetration. The dealer remains free to choose his customers, either as resellers or as end-users. In return for the grant of an exclusive territory he may agree to some reciprocal degree of exclusivity, eg not to sell competitive products of other suppliers, or not to sell them within the territory or at the same outlet.

4.17. For many years it has been a characteristic of the distribution of new cars and car suppliers' parts that features of both the selective and exclusive distribution systems are combined. In respect of *sales of new cars* the selective element is normally unqualified but the exclusive element may be either qualified or

¹The only one with significant sales is Nissan UK.

unqualified. This means that new cars may be sold only to end-users (or their duly authorised agents) or to resellers approved by the supplier, but that the supplier may have the right to modify the territory originally granted and the dealer may still have the right to sell products acquired from other suppliers. In respect of *sales of suppliers' parts*, however, the selective element, too, may be qualified or even absent. This means that the dealer may be free to sell not only to end-users and other dealers in the network but also to resellers who are not part of the supplier's distribution network. However, the supplier normally remains selective, selling its parts only for the purposes of resale to its appointed dealers.

Legislation

United Kingdom legislation

4.18. Contractual restrictions of the kind found in an SED system are normally regarded as restrictive of competition. In the United Kingdom, the Restrictive Trade Practices Act 1976 (the Act) provides a number of exemptions which mean that for the most part car and parts distribution agreements containing such restrictions are not subject to registration. However, a number of agreements between suppliers and dealers have been registered under the Act by the DGFT (see Note to Appendix 8.1). These agreements have been registered because they contain at least one provision outside the scope of the exemptions in the Act. If an agreement contains such a provision all the restrictive provisions in the agreement fall to be registered, including those which would otherwise be exempt. A number of other agreements contain similar restrictions—all relating to prohibitions on the manufacture of cars—and these are also listed in the Note to Appendix 8.1. Under the Fair Trading Act 1973, sections 10(2) and 54(5), we are precluded from taking these registrable restrictions into account in considering the monopoly situation and from expressing views on the effects on the public interest of such restrictions.

EC legislation

Treaty of Rome

4.19. For the purposes of this inquiry our main concern is with the provisions of EC law. Article 85(1) of the Treaty of Rome prohibits agreements and concerted practices between undertakings which may affect trade between member states and which have as their object or effect the prevention, restriction or distortion of competition within the common market. However, Article 85(3) outlines certain conditions which, if met, can lead to some agreements which contain anti-competitive provisions being declared exempt from Article 85(1) if they contribute to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit and do not:

- (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; and
- (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

EC Regulation 123/85

4.20. The EC Commission was authorised in 1965 to adopt the practice of granting 'block' (or 'group') exemptions to certain categories of agreements. In the case of car distribution agreements (which also include car parts), after lengthy consultation between interested parties, the EC Commission promulgated in December 1984 EC Regulation 123/85 (the Regulation) which grants exemption to various provisions in the contracts between car suppliers and their dealers for the ten years from 1 July 1985 to 30 June 1995. The Regulation is set out in Appendix 4.2.

4.21. The Regulation opens with Recitals which set out the background to its adoption and the principles upon which it has been prepared. The reason for granting the block exemption is to be found at Recital 4:

The exclusive and selective distribution clauses can be regarded as indispensable measures of rationalisation in the motor vehicle industry because motor vehicles are consumer durables which at both regular and irregular intervals require expert maintenance and repair, not always in the same place. Motor vehicle manufacturers co-operate with the selected dealers and repairers in order to provide specialised servicing for the product. On grounds of capacity and efficiency alone, such a form of co-operation cannot be extended to an unlimited number of dealers and repairers.

4.22. Recital 6 rehearses the case for selectivity in the supply of parts:

It should be possible to bar wholesalers not belonging to the distribution system from reselling parts originating from motor vehicle manufacturers. It may be supposed that the system of rapid availability of spare parts across the whole contract programme, including those with a low turnover, which is beneficial to the consumer, could not be maintained without obligatory recourse to the authorised network.

4.23. Recital 8 lays down that:

However, bans on dealing in competing products cannot be regarded as indispensable in all circumstances to efficient distribution. Dealers must be free to obtain from third parties supplies of parts which match the quality of those offered by the manufacturer, for example where the parts are produced by a sub-contract manufacturer who also supplies the motor vehicle manufacturer, and to use and sell them. They must also keep their freedom to choose parts which are usable in motor vehicles within the contract programme and which not only match but exceed the quality standard.

4.24. Finally, Recital 29 states that:

It is without prejudice to laws and administrative measures of the Member States by which the latter, having regard to particular circumstances, prohibit or declare unenforceable particular restrictive obligations contained in an agreement exempted under this Regulation; the foregoing cannot however affect the primacy of Community law.

This final recital is important since it permits EC member states to declare unenforceable particular restrictive obligations on the dealer found within such agreements.

4.25. Articles 1 and 2 of the Regulation define the products covered by the Regulation, state that the exemption applies only to two party agreements between a supplier and a dealer, sanction the concept of exclusive supply within a defined territory of the common market and make it legitimate for the supplier to agree not to sell in the territory in competition with the dealer. Article 1 specifically provides that the products covered (referred to in Article 13 as 'contract goods') include spare parts for the makes of vehicle supplied by the manufacturer.

4.26. Article 3 provides a list of 12 clauses normally restrictive of competition which may be included by the supplier in its contract with the dealer. Many of these relate to *parts* as well as new cars. The purpose of these restrictions is to support both the selective and exclusive features of the system by forbidding the use of subcontractors, permitting supply of *parts* within the contract programme to a reseller only where they are for the purpose of repair or maintenance of a vehicle by the reseller, limiting the dealer's sales promotion to inside his territory, restricting the dealer's rights to enter into distribution or servicing agreements for competing *parts*, and requiring the supplier's consent before distribution or servicing agreements for the 'contract' or 'corresponding' *parts* are concluded, altered or terminated. Article 3 also permits restriction of the dealer's rights to sell *parts* which compete with 'contract' goods and are not of matching quality as well as the dealer's rights to use such *parts* for repair or maintenance of 'contract' or 'corresponding' new cars. It is noteworthy that as laid down in Recital 8 these restrictions do

not include an exclusive purchasing obligation. In some instances the absolute nature of the restriction is qualified by obligations on the supplier under Article 5.

4.27. Article 4 expressly permits certain categories of obligation which the supplier can impose on the dealer. These relate, among other matters, to minimum standards in respect of premises, staff training, ordering, repair and maintenance, sales targets, stock levels for both cars and parts, the use of only the supplier's parts in free servicing or warranty and recall work and the obligation to carry out such work. Suppliers may also require dealers to inform customers when spare parts from sources other than the supplier have been used for servicing and repairs to contract or corresponding goods if manufacturers' parts were also available.

4.28. Article 5 sets out certain basic obligations which the supplier and dealer must continue to honour if the block exemption is to apply and also contains provisions which serve to qualify some of the restrictions listed in Article 3. The obligations cover such issues as honouring guarantees and undertaking recall work for cars of the model types covered by the agreement (which may have been sold originally in another member state), and the operation of quantity rebate or bonus schemes. In connection with rebate or bonus schemes Article 5(1)(2)(c) lays down that the supplier:

shall, in any scheme for aggregating quantities or values of goods obtained by the dealer from the supplier and from connected undertakings within a specified period for the purpose of calculating discounts, at least distinguish between supplies of:

- motor vehicles within the contract programme;
- spare parts within the contract programme, for supplies of which the dealer is dependent on undertakings within the distribution network; and
- other goods.

The purpose of this requirement, as set out in Recital 15 is:

to counter the concentration of the dealer's demand on the supplier which might follow from cumulation of discounts. The purpose of this provision is to allow spare parts suppliers which do not offer as wide a range of goods as the manufacturer to compete on equal terms.

4.29. Article 10 specifies the circumstances in which the EC Commission may withdraw the benefit of the block exemption in an individual case. This is so in particular where the contract goods or corresponding goods covered by the block exemption are not subject to competition from other similar products, where the supplier continuously or systematically makes it difficult for consumers to obtain contract goods, or corresponding goods, where prices or conditions of supply for contract goods or for corresponding goods differ between member states substantially over a considerable period, and where such differences are chiefly due to obligations exempted by the Regulation.

4.30. Article 13 contains definitions. The term 'contract goods', used throughout the Regulation, but particularly in relation to the restrictions of Article 3 and obligations of Article 4, embraces both cars and spare parts for such cars. 'Spare parts' are defined as parts which are used as replacements for components of the vehicle. A distinction is drawn between 'spare parts' as defined (which are covered by the Regulation) and 'other parts and accessories' (which are not). Article 13 provides that custom and usage in the motor trade is to be used to distinguish between spare parts and other parts and accessories.

MMC discussions with EC Commission

4.31. During the course of this inquiry the MMC sought the views of Directorate General IV of the EC Commission, which is responsible for competition matters, on the interpretation, among other matters, of Article 5(1)(2)(c) (see paragraph 4.28) since it appeared open to different interpretations. The question put to the Directorate General and its response are contained in Appendix 4.3. This exchange was subsequently conveyed to the car suppliers.

United Kingdom dealer agreements

General

4.32. Against the legislative background set out in paragraphs 4.18 to 4.30 we analyse those features of United Kingdom suppliers' agreements which bear on the supply of replacement parts. This analysis is based on 35 standard agreements and related documents submitted to us by suppliers.

4.33. Much of the Regulation, particularly the restraints in Article 3 and the obligations in Article 4, was based on dealer agreements in existence when it was drafted. It is not surprising, therefore, to find many provisions in dealer agreements which contain such restrictive or obligatory features, but it needs to be borne in mind that in general form these pre-dated the Regulation and have not been included solely as a consequence of it. The dealer agreements of those suppliers which have recently entered the United Kingdom market or have recently amended their standard provisions tend to be phrased in either the same or very similar words to those contained in the Regulation. But not all agreements contain all the restrictions and obligations permitted by the Regulation, nor are all agreements confined to them.

Dealer selection and agency

4.34. The principle that the choice of dealer and judgment as to his suitability remains the supplier's prerogative is clearly evident in the agreements. Typically, the ownership and management of the dealership and its premises are registered as part of the contract and changes to them, without the supplier's consent, are causes for termination. The contract is between the supplier and the named dealer, whether the latter is an individual, a partnership or a company, and so a change in ownership of the premises used for the dealership or a change in control of the company holding the franchise may not lead to a transfer of the dealer agreement; that will be for the supplier to decide.

4.35. Agreements usually specify that the dealer is not an agent of the supplier. The dealer and his staff are considered to be independent parties and are prohibited from acting as, or giving the impression that they are, the supplier's agents, and from taking on any legally binding commitment on behalf of the supplier.

Form of agreements

4.36. There is little or no individual negotiation on the terms and conditions of suppliers' agreements, the contract normally comprising a series of standard forms drawn up by the supplier and completed with details of the prospective dealer's business.

4.37. Although differing in style and content the agreements of the different suppliers have many features in common. Documentation generally comprises five distinct parts:

- (a) appointment forms or letters relating to the individual dealership. These may include details of ownership, management, premises, location, other dealerships of the supplier and other suppliers, and demarcation of territory;
- (b) a standard contract containing a series of conditions covering territorial rights and obligations, sales and stock targets, ordering procedures, prices, servicing and warranty obligations, trade mark rights, various restraints and obligations on the dealer, and other provisions normally to be found in a commercial agreement;
- (c) an integral or separate paper covering the consignment or 'sale or return' conditions on which new cars are supplied;
- (d) a range of manuals and guides covering technical and operating standards and practices, descriptions of special bonus programmes, informative and instructional booklets, pamphlets and

leaflets all designed to supplement the basic obligations and rights contained in the standard agreement; and

- (e) *ad hoc* bulletins and notices concerned with specific events, eg price changes, recalls, promotions and special offers.

Apart from (a) the other documents are standard for all dealers in the supplier's distribution network and, *mutatis mutandis*, for second-tier dealers and those dealers handling a specialised product range.

4.38. Apart from dealer agreements, a number of the major suppliers have adopted policies or internal guidelines, which they follow with various degrees of flexibility, relating to number, location and proximity of dealerships. These may be put to dealers either in writing or orally; they may be generally known to dealers or disclosed only when occasion arises.

Special features of dealer agreements

4.39. There are many provisions of dealer agreements which are common to the generality of agreements covering the sale and purchase of goods and which we have not analysed. We have focused on the exclusive and selective elements and particular obligations which may give rise to practices which prevent, restrict or distort competition in the supply of car parts.

Exclusive territory

4.40. Most agreements refer to a dealer's 'territory'. In some agreements the word territory is specifically used, others refer to the dealer's 'area of prime responsibility' or 'area of influence'. The concept of a territory, as mentioned in several contracts, is that it provides a defined area within which the dealer should concentrate on promoting and selling the supplier's products. Usually the territory is defined geographically by post-code but in some larger conurbations it may also be defined by a percentage market share. In most agreements the supplier agrees explicitly or implicitly that the authorised dealer has the sole right within the territory to buy the supplier's contract goods for the purposes of resale. However, a number of agreements make it plain that the dealer does not have exclusive selling rights within the territory.

4.41. Most suppliers reserve the right to sell in the territories themselves. Some suppliers sell direct to customers which buy large numbers of new cars and which have their own workshops for service and repair.

4.42. Most suppliers retain the right to change the size of the territory or to establish other dealerships within it, but agree to exercise this right only after giving 'objectively valid reasons' and, in many cases, after due consultation with the dealer. The objectively valid reasons are usually not defined but are sometimes included in the agreement; for example, if the supplier thinks there are serious shortcomings in the distribution or servicing of its products in the designated area so that their full sales potential may not be realised or if there are substantial population changes in the territory.

4.43. Many agreements contain provisions which prevent the dealer from subcontracting any of the rights and obligations of the contract within the assigned territory or from concluding distribution or servicing agreements in respect of the supplier's products with third parties without the prior consent of the supplier.

Restraints on promoting sales outside territory

4.44. The concept of territory and the rights it confers on the dealer holding that territory are reinforced generally by a number of provisions designed to limit encroachment by other dealers. Many agreements contain provisions which restrict the dealer from actively seeking sales in the territories of other dealers.

Dealers are prevented from setting up branches themselves or from arranging for a third party to carry on dealership operations on their behalf outside their own territory. There are often restrictions on advertising and promotion outside the area. There is, however, no bar to the dealer accepting unsolicited orders from persons outside the territory and there is no attempt to suppress cross-territory advertising where the medium used, whether press or local radio, covers an area greater than the dealer's territory.

Limitations on resale

4.45. Some agreements prevent the dealer from selling the supplier's parts to intermediaries which are not themselves part of the supplier's authorised dealer network, unless the intermediary is engaged in a car service and repair business and requires the parts for this business (and is, therefore, to all intents and purposes, an end-user). However, although such a restriction is permitted under the Regulation many of the leading suppliers, including Ford, Vauxhall and Rover, do not impose it and suppliers told us that there was keen competition among dealers for reseller business.

Restrictions on dealing in competitive products

4.46. Many dealers are constrained from entering into distribution agreements for parts which compete with those of their supplier and do not match the quality of the suppliers' corresponding parts; they are also constrained from selling or using competing parts in maintenance or repair of the suppliers' marques of cars unless these are of equivalent quality.

4.47. A part which is not the functional equivalent of the corresponding part or is not fully compatible with the systems and components of the car may be deemed of less than equivalent quality.

Parts and warranty work

4.48. It is customary for manufacturers to warrant new cars and all agreements contain obligations on the dealer to carry out pre-delivery inspections and to service and repair the supplier's cars during the warranty period. Most dealers are obliged to use parts supplied by or approved by suppliers for all warranty work and recall programmes but they are reimbursed for the cost of this work by the supplier (see paragraphs 4.53 to 4.58 for further details of warranties and extended warranties).

4.49. In general, agreements and allied documentation seek to impose minimum standards on the dealer in a number of areas concerned with parts distribution. These may involve sales and stock targets, establishing a separate parts department, employing staff trained in parts handling and using systems for stock tracking, control and ordering.

Wholesale and retail pricing

4.50. In most cases prices payable by dealers for parts are priced by a formula which starts with a recommended or maximum retail list price established by the supplier from which a standard percentage discount is deducted to give the dealer a gross margin. In no case does the supplier set minimum resale prices. All dealers of a particular supplier pay the same basic wholesale price.

Bonus schemes

4.51. Most, but not all, suppliers give bonuses to franchised dealers for purchases or sales against a previously agreed parts target. In addition, many suppliers operate schemes in which points are awarded for meeting sales targets for cars, parts and extended warranties and for achieving a defined percentage of sales of new cars financed through the suppliers' sponsored credit sale schemes. Often the reward for achieving

an appropriate total number of points for all these categories over a given time, usually a quarter or a whole year, is an additional percentage discount on the value of all new cars sold during that same period of time. Operating standards are given a great deal of attention by all suppliers and, even where a points or other rating system does not exist, the achievement of a minimum standard is essential for bonus payments on parts and, in some cases, cars also. Further details of bonus schemes are given in Appendix 4.4.

4.52. A number of dealers complained to us that linked bonus schemes restrict their commercial freedom to offer their customers spare parts from sources other than car suppliers. Suppliers' views on the commercial justification for such schemes are contained in Chapter 7.

Warranties and service

Standard warranties

4.53. Suppliers provide buyers of new cars with a warranty. This usually promises free repair of mechanical or electrical defects arising within 12 months of purchase and many also include a warranty in respect of paintwork (for up to three years) and body corrosion (for up to six years). Table 4.1 gives some examples of the duration of warranties from the major suppliers. A few suppliers have recently started offering a three-year warranty against mechanical defects. In the USA three-year or 30,000-mile warranties are usual.

TABLE 4.1 **Duration of major suppliers' standard warranties, 1990**

| Supplier | Number of years | | |
|-----------------------|-----------------|-------|--|
| | Mechanical | Paint | Bodywork |
| Ford | 1 | - | 6 |
| Vauxhall | 1 | - | 6 |
| Rover | 1 | 3 | 6 |
| Peugeot | 1 | 1 | 1 (anti-perforation warranty for six years) |
| Citroën | 1 | - | 6 |
| Renault | 1 | - | 6 (8 year bodywork for Renault 19 and Clio) |
| VAG (UK) | 1 | 3 | 6 (10 year bodywork for Audi) |
| BMW | 1 | 1 | 6 |
| Mercedes-Benz | 1 | 1 | 6 |
| Fiat | 1 | 3 | 6 |
| Volvo | 1 | 1 | 1 (plus additional contributions to repairs throughout vehicle's life) |
| Mazda | 3 | - | 6 |
| Toyota | 3 | 3 | 6 (or 60,000 miles) |
| Nissan UK | 3 | 3 | 6 |
| Honda | 2 | 3 | 6 |
| Motor Vehicle Imports | 2 | - | 6 |

Source: New car suppliers.

4.54. Most warranties require the use of car suppliers' parts exclusively for warranty work: a few say nothing on the subject. In many cases, however, such a condition is contained in the warranty section of the standard dealer agreement.

4.55. The warranties of three suppliers (Mazda, Toyota and Volvo) require that their own parts must be used for all repairs and servicing during the warranty period for the customer to obtain the full benefits of the warranty. Five suppliers' warranties require the first service of a new car to be carried out by a franchised dealer only and a further 13 require that all servicing during the warranty period should be carried out by the franchised dealer. A further eight require that servicing should be carried out in accordance with the manufacturer's recommended schedules, for example by referring to the detailed requirements set out in a service booklet. Fuller details of the conditions of individual suppliers' warranties are set out in Appendix 4.5.

Extended warranties

4.56. It is possible for a car owner to purchase an extended warranty with the provisions coming into effect when the standard warranty expires. Cover is usually available for one or two years extra although a third year is occasionally offered. Exceptionally Volvo Concessionaires Ltd offer a 'Lifetime Care' scheme.

4.57. Although these arrangements are called extended warranties, they are in concept and application quite different from standard warranties: they are customer options which may be purchased by the customer; they are not comprehensive in cover and usually they do not impose obligations on the supplier; the cover is usually provided by an insurance company.

4.58. It appears to be a condition of all these policies (except those sponsored by Citroën) that service and repair during the period covered by the insurance is carried out by authorised dealers using parts supplied or approved by the car supplier.

Service

4.59. The results of a consumer survey conducted by us as part of this inquiry contained a number of findings regarding new car purchasers' attitudes towards servicing and standards. Nearly all the car purchasers surveyed (95 to 97 per cent) stated that they were satisfied or well satisfied with the quality of service they received, which was nearly always at a franchised dealership. Purchasers thought that franchised dealers provided a better service than non-franchised repairers in terms of speed, diagnosis and rectification of defects, quality and availability of parts. Purchasers were fairly evenly divided as to whether franchised dealers were more expensive than non-franchised repairers.

4.60. The franchised dealer is usually obliged by the terms of his agreement to advise the customer in writing if a part other than one approved by the supplier is used in the service or repair of the franchised make of car.

Practices of suppliers

4.61. We list in Appendices 4.4 and 4.6 certain practices of the suppliers which relate to the complex monopoly finding. The companies have been given an opportunity to see and comment on the practices ascribed to them.