

6 Views of other interested parties

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Introduction

6.1. We received evidence from organisations and companies representing manufacturers and distributors of car parts, franchised dealers, independent garages and consumers. We also had a few letters from members of the public. Some of the third parties attended hearings. The material in this chapter relates only to evidence on car parts. In some cases this may have been submitted with evidence on matters concerned with our other inquiry into the price of new cars in the United Kingdom (see paragraph 2.13).

Manufacturers

Motor Panel Manufacturers and Distributors Association

6.2. The *Motor Panel Manufacturers and Distributors Association (MPMDA)* said that it had ten members, whose total turnover was some £30 million per annum out of a replacement panel market of about £400 million. All the members manufactured and/or distributed a wide range of panels for the repair of the motor vehicles of a number of car manufacturers, supplying mainly the independent motor factor. Supply to franchised dealers was a very low part of an independent's turnover, generally less than 1 per cent. Outside the Association there were smaller companies specialising in particular makes of car. There were also very small middlemen who specialised in going to the Continent, buying a lorry-load of original parts from a dealer and bringing them back to the United Kingdom, where they could be sold at a profit more cheaply than the list price. Perhaps £20 million of replacement panels turnover was coming through this route.

6.3. The independent panel manufacturing industry came into being in the early 1970s as a result of the introduction of the MOT test. Cars failed because of corrosion of bodywork and the car manufacturers did not have the panels required to make the necessary repairs. They did have complete panels but in many cases the area of rust was small, and the car owner was reluctant to pay for a whole panel. The industry started in a small way, but in the early 1980s was offering front wings and panels, mainly for older cars. About that time problems arose over intellectual property rights, and these went on for a number of years,¹ but it was only after the *Car Parts* report of 1982 and the making of the Car Parts Order (see paragraphs 2.2 to 2.6) that MPMDA members had been subject to litigation by Ford and Volvo. Until that time manufacturers had been free to prevent their dealers from purchasing replacement body panels from independents. Subsequently copyright was used against independent manufacturers until the introduction of the Copyright, Designs and Patents Act 1988, followed by registered designs until this was investigated by the EC. For these reasons the MPMDA believed that efforts were needed to ensure that the large car manufacturers did not bring direct or indirect pressure on their franchised dealers to prevent them from obtaining body panels from independent manufacturers.

6.4. Members considered that franchised dealers would buy more from independents were they not influenced by various provisions of their dealer agreements. The general experience was that franchised dealers would obtain panels from independent manufacturers for immediate use, but not for stocking purposes. Car manufacturers offered discounts and holiday incentives which tended to reinforce the stocking of OE replacement panels only. Advertisements also reinforced the monopoly situation in the market for RE parts. However, some members did supply certain car suppliers' own parts departments with replacement body panels, which were then supplied to franchised dealers.

6.5. The attitude of insurance companies had traditionally kept the independent panel manufacturers out of the insurance market, but the MPMDA saw no reason why it should not supply that market; it believed that the attitude of the insurance market resulted to some extent from apathy and it was not alleged that there was any tie-up between the insurance companies and the car suppliers. MPMDA members wished only to be allowed to compete on a fair basis, and believed that the public interest was best served by the availability of independent replacement body panels in the United Kingdom and elsewhere.

¹ See, for example, *Ford Motor Company Limited: a report on the policy and practice of the Ford Motor Company Limited of not granting licences to manufacture or sell in the United Kingdom certain replacement body parts for Ford vehicles*, Cmnd 9437, February 1985.

Society of Motor Manufacturers and Traders (component suppliers)

6.6. A copy of the remedies letter (see Appendix 7.2) was sent to the *SMMT* asking for comments. The *SMMT* sent responses from two sections—from component supplier members and from the Franchised Vehicle Retailers Section (FVRS); for the FVRS response see paragraphs 6.117 to 6.120. In an introductory note the *SMMT* said that the *MMC* had already looked into the removal of restrictions on franchised dealers using parts from suppliers in repairing customers' vehicles, and this had resulted in the 1982 Car Parts Order. It pointed out that such restrictions were already prohibited except in so far as the part was required for warranty work or in pursuance of a recall campaign. The *SMMT* had not been advised by any of its component company members of cases of non-compliance with the Order. But removal of restrictions on franchised dealers becoming wholesale distributors of parts for an alternative supplier was a different matter. If a dealer tried to act as trade distributor for two competing makes of parts, his commitment would be in question for one or the other and the position would be less competitive than if the two makes were handled by different distributors. It was difficult to see how this could be in the interests of consumers.

6.7. Only three *companies supplying components* made a detailed response to *SMMT* enquiries. One afterwards attended a hearing and its views on possible remedies have been added to its other evidence.

6.8. The second company said that it saw no difficulties with performance-related rebate or bonus schemes, but that they should be separately related to a specific product group. The removal in practice of any restraint on franchised dealers buying from independent suppliers was fundamental to achieving a more competitive choice for the customer. It would not be appropriate to require both car and component suppliers to supply all prospective customers; a decision to supply would have to consider more than just minimum volumes, otherwise 'cherry picking' buying would lead to a more chaotic rather than more competitive market. The removal of car suppliers' restrictions on OE component manufacturers supplying RE parts, where no financial or technical assistance had been given, was fundamental to competition in the RE market, and restriction should only be for one year from the date of launch of a model. Car suppliers should not be able to restrict suppliers' aftermarket activities, for instance by making them agree not to sell a specific part to their RE market in return for an OE contract, by requiring that the OE parts should carry only the car manufacturer's brand, or by stipulating that no publicity issued by a component manufacturer should refer to being an OE supplier.

6.9. A third company said that it agreed that linked bonus schemes should be prohibited, but did not see any reason to prohibit performance-related rebate and bonus schemes if they were free-standing. It also agreed that rebate or bonus schemes on sales of parts, accessories and number plates should be separate. Franchised dealers should be able to enter into distribution agreements for parts with independent suppliers, and car suppliers should offer branded parts on comparable terms direct to non-franchised customers, subject to approved minimum volumes. It was necessary for car suppliers to make diagnostic equipment, manuals and other technical information available to the independent garage to ensure that vehicle safety standards were upheld.

6.10. The company thought that franchised dealers should inform customers where non-branded parts were used, if by that was meant that the parts did not have any manufacturer brand on them. It believed that service standards should be clearly specified and monitored—this was necessary for consumer protection and safety. On the question of restrictions on the supply of RE components imposed by the car suppliers, if the car manufacturer held the intellectual property rights it would be wrong to allow a 'make-to-print' component supplier to supply the independent aftermarket. However, in the case of proprietary component manufacturers it was probably already wrong for the car supplier to restrict the freedom of the supplier in the independent aftermarket. Such suppliers generally paid for all or some of the development and tooling of a product in order to reserve that right.

Association of Vehicle Registration Plate Manufacturers

6.11. The *Association of Vehicle Registration Plate Manufacturers (AVRPM)* said that it was concerned about the rapid increase in number plate schemes introduced by car suppliers. These were often tied to bonus schemes and meant that a dealer bought his number plates from a specific number plate manufacturer, usually at a price higher than he could buy them from a local supplier. A number plate was not a car part, and was not made by the car supplier—why therefore should the dealer be forced to buy through its supplier? The *AVRPM* complained that such schemes prevented franchised dealers from trading freely: car suppliers

had been putting considerable pressure on their dealers to join in to the extent that some had felt threatened with the loss of their franchise if they did not comply. All the AVRPM's members had lost business because of these schemes, and the car buyer ended up paying more for the final product.

BBA Group PLC

6.12. *BBA Group PLC* said that it was an industrial holding company with three main divisions: Automotive, Industrial Textiles, and Aviation. Manufacturing took place in 19 countries. Automotive Division comprised an Automotive Components Division and a Friction Materials Division. Their turnovers were around £40 million and £130 million respectively. BBA said that it supplied OE and RE parts to all the major car manufacturers, and also to RE distributors and the independent market, all from the same production lines. In the Automotive Components Division 50 per cent of total sales were in the United Kingdom, and in Friction Materials the split was 15 per cent in the United Kingdom and the balance elsewhere in Europe. Brand names were Borg and Beck (clutches), Lockheed Hydraulic (brakes), Mintex Don and Textar.

6.13. Most of its contracts were for world-wide supply. The OE equipment produced would go to where the cars were assembled and the aftermarket parts would go to a distribution facility within the United Kingdom or Europe. Because car parts were becoming more complex, and because of the globalisation of the industry, there was an increasing range of models to service in the aftermarket to provide a full-range service to the customer. This trend was more than offsetting any standardisation occurring in components. The trend was also to single-tier pricing-at the moment many car manufacturers paid more for the same part, from the same production line, for the RE market, but this was changing and they were beginning to insist that all new contracts were at single- tier pricing (with extra for RE packaging only), though a normal inflation increase would generally be available each year. The car manufacturers had a fairly large margin on parts, so there was sufficient headroom for independents to make their own tools, supply an RE product and make what they would consider a sufficient margin, albeit a lot less than the car manufacturer which bought at single-tier prices. In most cases the same product was used for both OE and RE parts. There was no difference. The manufacturer would dual source in most instances.

6.14. When business was awarded by the car manufacturer, tooling was laid down to produce the item. For, say, a clutch cover it could cost around £100,000. In the past BBA had shared the tooling costs with the manufacturer, so that the tooling could also be used for aftermarket production, on the basis that the part itself was a BBA design. The tendency now was for car manufacturers to insist on paying for the tooling in total, and to withhold rights to produce for the aftermarket, so that BBA had to lay down a set of tools for itself, if it wished to be free to supply the aftermarket. If BBA used its own tooling it then came under pressure not to use its own brand name on the product, so that it was identified purely by a number. This was in order to reduce competition in the market. It really was a restriction in terms of promoting the company brand name and expanding the market. However, BBA had sold to the car manufacturers an anti-locking electronically-controlled gear-shifting mechanism which was designed by BBA as a total system. BBA was thus free to supply it to the aftermarket if it wished.

6.15. Another practice was that car manufacturers were putting together complete ranges of parts for cars that they did not themselves manufacture, and selling them as all-makes products through their franchised dealers. BBA said that although it thought that it could offer a better service, better range and better prices, the only time a franchised dealer would buy from the independent sector was when he could not obtain the part from his car supplier. It was not necessarily a matter of pressure. The whole reason for having a franchise was to deal with a particular supplier-the dealer was allied to it. However, BBA would welcome the removal of the prohibition by car suppliers on their franchised dealers entering into distribution agreements for parts with independent suppliers. This would certainly help to get products into the market-place, although it would probably not be of interest to the first or second owner of a car.

6.16. An important feature of the market was the increased reliability of parts. In a few years' time clutches would be lasting the life of the car, so the way things were moving, if a company did not obtain OE business there would be nothing for it. For instance, where BBA used to supply hundreds of thousands of brake cylinders into the aftermarket, their performance was now so good that it was ten years before BBA supplied RE cylinders.

6.17. Asked about the effect of advances in technology, BBA said that the more electronic equipment was put into cars, the less the independent garage was able to supply the part or understand what was going on within the vehicle. It was necessary to go on courses now to understand the electronics systems and the franchised dealers were looked after in that respect by their car supplier. However, there were a number of independent manufacturers of diagnostic equipment which would train independents. They themselves ran training sessions and seminars for independent garages, and helped them with marketing and finance. BBA agreed that car suppliers should make information available so that independent garages could at least diagnose faults, but did not think this a problem: it was possible to do that now. The problem was, having diagnosed the fault, that the part had to be obtained from a franchised dealer.

6.18. BBA technology was well accepted by the Japanese. It had a licensee in Japan who licensed its products and they were used by the Japanese car manufacturers. It saw the advent of Japanese transplants as an opportunity, not a threat.

Robert Bosch GmbH

6.19. *Robert Bosch GmbH (Bosch)* is a German company with a world-wide organisation. Its main-stream business is in diesel and petrol injection controls, ignition systems and other electrical components; it also manufactures and supplies diagnostic equipment. In 1989 it made, through its United Kingdom subsidiary, Robert Bosch Ltd (RBL), United Kingdom sales of aftermarket products and RE parts of £29 million, of which £23 million was to the independent sector. It expected this split to continue in the medium term, but in the longer term it was possible that a higher proportion of supplies would be to car manufacturers because they might take a larger share of the aftermarket business.

6.20. Bosch said that it usually developed the products that it supplied and adapted them to the requirements of the car manufacturers. The further development costs required for the adaptation would usually be shared with the manufacturer, the latter paying a proportion of that part of the tooling specific to its application. Bosch had no contracts or agreements in the United Kingdom which would prevent it supplying its own (global) distribution network, but under its own brand name. However, this was a subject which invariably arose in negotiations and Bosch believed that it was a significant factor in the award of contracts, which only Bosch's strong position in the market allowed it to resist.

6.21. The car manufacturer could buy Bosch OE products at lower prices than the same product for sale in the aftermarket. This was because the costs involved in marketing were very different. For instance, for OE orders there was often no paperwork (because orders were dealt with on a computer network), no packaging (other than exterior protective wrapping), and direct delivery in bulk to the factory. There was nothing to prevent the car manufacturer using some of its OE stock on the RE market; however, it then had to pay for handling, marketing, distribution, and technical support, and it was these factors which accounted for much of the difference in price.

6.22. From Bosch's point of view, if it did not get the OE order for a product which required a large investment, it would be difficult to justify investment for the RE market alone. For this reason, Bosch's policy was generally to resist pressure from OE customers to give exclusive supply rights for their products. The aftermarket operation was likewise a separate and almost autonomous division of Bosch. It had 20 distributors and 16 motor factors in the United Kingdom. RBL bought approximately 75 to 80 per cent from Bosch companies, but there were certain products bought outside the group, mainly for reasons of cost and extension of the range of products supplied. The United Kingdom generally had a cheaper independent aftermarket than Europe, and also the car parc was still very much United Kingdom-specific vehicles.

6.23. There was a decrease in real terms in the size of the replacement market due to parts being more reliable, and longer service intervals, but RBL believed that much of the increase in the franchised dealer share of the market was due to the linking of service with warranties and extended warranties. Also parts were becoming more specific to a certain car, and thus captive to the franchised dealer network.

6.24. RBL said that through its own distribution network it dealt with independent garages and fast-fit outlets. A motor factor could choose which products he would take: an RBL distributor took the complete Bosch range and established a service area. RBL believed that independents could not increase their share of the franchised dealer market because dealers had their stocks checked at intervals to ensure that they did not source outside the system; so in general only distress purchases came to the independent sector. On the other

hand, the franchised dealer did not compete to supply the independent market; captive parts could be bought over the counter, but were not generally delivered.

6.25. RBL thought that the servicing aftermarket, that is maintenance of cars more than three years old, had very low standards compared with other service industries and with garages in, say, Germany. There was a need to catch up in dealing with the environmental control equipment now fitted to large numbers of cars, which would eventually become universal when catalytic converters were mandatory fitments. The widespread adoption of EMS in the 1980s to meet pollution control and catalyst protection requirements had quickly outstripped the ability of garages to check and correct any defects in the systems fitted.

6.26. RBL said that there was little competition to replace EMS control units, which were all in-house property, nor was it an attractive market because of low replacement rates. As far as using diagnostic equipment was concerned, of 350 RBL service agents, about 150 were diagnostic centres. They did not have the technical information required to repair all makes, but where the OE had been made by Bosch it was obviously available. Certain companies made it their business to gain the relevant technical information from the United States and Australia, where it was freely available, and then publish it in the United Kingdom. Bosch could add such information to its diagnostic equipment database.

6.27. Bosch thought that data at a level to permit identification of a defective component should be freely available, as without being able to use diagnostic equipment the independent garage would be at a great disadvantage, and the independent aftermarket would shrink. A range of diagnostic equipment was available from Bosch.

6.28. The SMMT, Lucas, Bosch and others were working towards an agreed standard for electric data information (EDI) because neither the independent garage nor indeed the franchised dealer had the level of turnover of a given supplier to warrant an EDI solution, but, if standards were agreed, he could select those suppliers with which he had accounts, allowing him greater communications on his network, and a faster response time to customers' requirements.

6.29. As far as potential remedies were concerned RBL said that it would be a great help if, in negotiations for OE contracts, it was quite clear (where the OE customer did not own the relevant intellectual property rights) that the replacement parts must be made available to third parties in the aftermarket sector.

6.30. RBL also said that it thought that it should be the case that routine servicing which did not actually affect warranty work, or parts which might have to be replaced during routine servicing, could be done or provided by an independent garage without affecting the warranty. This was particularly important now that warranties were being extended.

FKI Crypton Ltd

6.31. *FKI Crypton Ltd (Crypton)* is a manufacturer and supplier of diagnostic and other garage and motor vehicle maintenance equipment. Its parent is the United Kingdom company FKI plc which also owns a number of engineering businesses. Crypton said that it was a major supplier in the United Kingdom of diagnostic equipment to both franchised dealers and independent garages. Its main diagnostic unit cost around £10,000 and there was a smaller hand-held electronic systems tester costing around £1,000 which was suitable for smaller garages, and 'on-the-road' emission analysers were also supplied.

6.32. Crypton said that 10 to 15 years ago a good deal of basic adjustment on engine operation mechanisms, both mechanical and electrical, was achieved manually. Information was available freely from all motor manufacturers and published both in their workshop manuals and in repair publications such as the Haynes series. The equipment used in the garage at that time was for measurement rather than diagnosis or adjustment.

6.33. In newer cars many engine and other control and adjustment functions were electronically operated through on-board computers. Initially fitted to control ignition systems, electronic means were now used for a wide variety of functions on the car of which EMS was the most complex and sophisticated. The EMS comprised an electronic control unit (ECU) together with sensors, wiring and ancillaries: its functions

included measurement and diagnosis and in certain cases such as ignition timing could make adjustments triggered by measurements. The impetus for providing such close control of engine functions was the need to meet safety, economy and environmental requirements, both mandatory and those for observed or expected market demand.

6.34. With the fitting of electronic measurement and control functions, the need for garage diagnostic equipment for checking engines and locating faults had become apparent. Such equipment had to be able to plug into the individual EMS and be able to handle and interpret the electronic messages received. Lacking understanding or information, the mechanic's initial reaction when a fault was experienced was to change one or more electronic black boxes on a trial and error basis. This caused a dramatic increase in warranty claims and the return of a large number of black boxes to manufacturers and damaged the reputation of EMS in the eyes of dealers and owners. It was found that many of the boxes returned were functioning correctly and that the true causes of the faults were usually poor electrical connections and to a lesser extent sensor failure.

6.35. In the area of on-board electronic control and management, the motor manufacturers had developed brand-specific and even model-specific protocols, sockets and readers usually in co-operation, under secrecy agreements, with diagnostic equipment manufacturers and computer software companies. They considered this information to be proprietary. The EMS communicates with workshop diagnostic equipment via a link similar to that between a standard personal computer and a printer. Limited information on the meaning of the coded signals was provided to franchised garages alone; many manufacturers were and still are reluctant to provide the information on the communication protocols to independent diagnostic equipment manufacturers and some still absolutely refused to do so.

6.36. However, Crypton said that motor manufacturers were beginning to realise that their refusal impaired the ability of their franchised dealers to service or repair other makes of car, especially traded-in models, but were still not prepared to release the information required to enable Crypton and its competitors to provide more universal capability on their diagnostic equipment. In its view this reluctance had more to do with guarding market share than fears about the use of such information by garages. Crypton's experience was that the Japanese manufacturers and the importers were more likely to co-operate than the major home producers, possibly because they had fewer franchised repair garages. Intellectual property rights were not an issue since the diagnostic equipment manufacturers could sign secrecy agreements for the required information, if insisted upon by motor manufacturers.

6.37. Crypton had recognised that the independent garage needed a universal unit and wrote software for general use with a view to making the unit more widely applicable and hence potentially cheaper. Information available to Crypton had been included and the relevant leads and software produced. However, in those cases where vehicle manufacturers refused to supply information Crypton had been obliged to connect its test equipment to actual car models to derive meanings of the codes used. In an extreme case Crypton had reverse engineered a manufacturer's protocol but this was expensive and time-consuming. Ultimately Crypton felt that the manufacturers' attitude would have to change because it would be necessary for garages, both independent and franchised, to be able to deal with a wide variety of cars older than two to three years which were out of warranty and which had EMS systems: this problem was beginning to become apparent at garage level and would increase as EMS-fitted cars multiplied.

6.38. In the United States all cars now had to have closed loop control because of the fitting of catalytic converters. The car manufacturers there make the required computer protocols available, probably encouraged by freedom of information legislation. This was achieved by providing such information to a body known as the Equipment and Tool Institute (ETI) to which diagnostic equipment manufacturers belonged. Such information was of some use to Crypton but was limited by differences between United Kingdom and United States models. A similar organisation in the United Kingdom, the Garage Equipment Association (GEA), a sub-group of the SMMT, had been attempting to establish standards for cars in the United Kingdom. The situation on mainland Europe was considered to be the same as in the United Kingdom.

6.39. Crypton noted that some vehicle manufacturers had initially objected to the latest MOT emission test requirements saying that lean-burn engines would render them unnecessary. On vehicles with two-way communication with the EMS an MOT test garage could measure emissions but could not rectify cars found

to be out of limits if adjustment was via the EMS unless the garage concerned had a franchise for that particular brand/model of car.

Jepsons & Co Ltd

6.40. *Jepsons & Co Ltd (Jepsons)* of Sheffield said that it was a number plate supplier with seven branches throughout the United Kingdom offering either a made-up service or the facility for a garage to manufacture its own plates from components supplied. Jepsons complained of the increased involvement of motor manufacturers through their own various schemes in the supply of number plates, and the restrictions these schemes placed on dealers' freedom to purchase from where they chose. Over 50 per cent of the manufacturers in the United Kingdom car market now offered number plate schemes.

6.41. Jepsons objected to number plates being included in manufacturers' schemes for the following reasons:

- (a) Number plates were not OE supplied by the manufacturers with the vehicles. The garage applied to the Driver and Vehicle Licensing Agency (DVLA) for its issue of licence numbers, and was, or should be, free to purchase the plates in the open market-place. Number plates were a legal requirement, authorised by Act of Parliament and administered by DTp, which had (or should have) the power to ensure that garages were not subjected to monopolies or restrictive practices in the supply of number plates.
- (b) Reflective number plates, whether in aluminium or acrylic, had to be manufactured to the BSAU145a as set down by the BSI. All manufacturers had to submit their plates to it for approval and it was illegal to supply plates in any form without its certificate of approval being issued. A vehicle manufacturer could not claim, therefore, that he was protecting the standards of number plates by specifying a sole supplier under his scheme.
- (c) Manufacturers' schemes were inflationary as far as number plates were concerned. The open market could supply plates to the required standards, that cost less to the garage than a manufacturers' scheme.
- (d) Such schemes had caused closures and redundancy among number plate manufacturers and had left an unhealthy situation in the market. Competition was necessary in order to promote the development of new types of number plate. A debilitated number plate industry reduced to only a handful of suppliers because of manufacturers' schemes could lead to complacency, inefficiency and overpricing.

6.42. Garages were subjected to intense coercion because number plates were included in their targets, and in some instances if one item on the schedule (ie number plates) failed to meet its target, then a retrospective discount on the rest of the schedule was withheld. Jepsons had always avoided manufacturers' schemes, preferring to deal in the open market. Why should it be obliged to pay someone for doing nothing but act as a middleman? Jepsons' number plates were sold in Hong Kong, the West Indies, Gibraltar, Southern Ireland and West Africa, but in recent years it had had more problems with sales in the home market because of manufacturers' schemes than anything encountered abroad.

Lucas Industries plc

6.43. *Lucas Industries plc* is divided into three major sectors: Aerospace, Automotive and Applied Technology. Its major automotive interests are within the EC. Lucas said that it was in three basic automotive technologies: brakes, diesel and electrics/electronics. About 44 per cent of Lucas' parts business was in the United Kingdom, and about 70 per cent of this parts business was in OE. On average 40 per cent of its aftermarket business went to the independent aftermarket. The vast majority of sales to the independent aftermarket were sold in the Lucas brand although some product was boxed in other suppliers' names. In the United Kingdom Lucas had 70 wholly-owned distributors forming part of a network of more than 350 outlets.

6.44. In the independent aftermarket the Lucas marketing objective was to provide a broad all-makes range within its chosen technologies. It covered some 90 per cent plus of the car parc, and so would expect to service more than nine out of ten cars. Some all-makes components were manufactured in Lucas factories and some were bought in from third party suppliers.

6.45. Lucas said that there were usually distinct lines of supply for OE and RE parts: most car manufacturers had aftermarket organisations which ordered RE parts quite separately from their OE supply. When the original contract was negotiated, sometimes the RE element was included, sometimes not, but it was becoming a more important aspect of the negotiations. There was an increasing trend towards relating the RE and OE prices. Previously they had been relatively separate. But the difference in price depended very much on the part. Often also the RE parts were different-for instance, sold as kits or fragmented into component parts, not all of which might be supplied. Once a part moved from current production, prices for RE would need to be adjusted to reflect the different volumes and potentially the different manufacturing processes. Lucas had to look at the average return on investment; there was intense competition on OE prices and increasing competition in the aftermarket. Because of their volume purchases car manufacturers were able to obtain RE parts at lower prices than other customers, although they probably tended to have higher distribution overheads than the independent supply chain.

6.46. Lucas supplied components to Germany, France and other EC markets. It was impossible to say that the prices charged were higher or lower than in the United Kingdom. There was no discernible pattern; it was a question of the competitive pressures on a particular component in the particular market; problems were different also. In Germany vehicle manufacturers held a much greater share of the market with access to the independent sector in the hands of relatively few large wholesalers. Whilst there were national differences, the automotive aftermarket was very competitive right across Europe.

6.47. Turning to tooling, Lucas said that the customer usually paid a contribution to the tooling, either in the price of the components, or directly as a lump sum. In most cases the customer contribution would be for tailoring the product to meet the needs of a particular application and not for investment in the product technology, which belonged to Lucas. Lucas was not prepared to concede exclusivity in the aftermarket to the vehicle manufactures on the grounds that this would give them a dominant competitive position which was not in the interests of the component suppliers or of the ultimate consumer. Lucas accepted that where the manufacturer held the design right, and the component manufacturer was in effect acting as a subcontractor, supplies to the vehicle manufacturer would be exclusive. In such cases, however, it would be preferable for the component manufacturer to be free to sell to the independent market subject to the payment of a royalty which would have to be settled at a reasonable level.

6.48. Asked how the quality of parts supplied under independent brand names compared with the car manufacturers' branded and all-makes parts, Lucas said that although direct comparisons were often not possible, its parts were comparable but not identical. It welcomed new standards so long as the method of enforcement did not create new barriers to trade. There was, however, a significant business in imported substandard counterfeit parts in both independent and manufacturers' products. It thought that BS 5750 would spread in the Northern European markets and would be a basis for improved business performance.

6.49. As for views on the apparent increase in the car suppliers' share of the wholesale replacement market since the MMC's 1982 report, Lucas said that that was not its perception. There was certainly a reduction in consumption of parts per vehicle, in real terms, as parts became more reliable, but on the other hand there had been growth in the car parc. The share of its own products had remained relatively static over the last eight years, but it was competing in the mechanical and electrical parts of the car, and not, for instance, in body parts or glass. The other point was that there had been little headway by independent suppliers with attempts to supply franchised dealers. It did not find that surprising-the car manufacturers had a strong hold on their franchised dealers; there was the convenience of a comprehensive package, including technical support, promotional material, and easy ordering. Lucas did not think that it would make much difference if franchised dealers were allowed to have distribution agreements to wholesale other suppliers' parts. The real competition in the market was between the independent sector and the franchised sector. Even where parts were captive to the manufacturer there were few areas where there was not some competition although comprehensive support services might not be offered. The first owner of a car would tend to go back to his franchised dealer, but when the car was between three and ten years old the typical owner would tend to use the independent garage, which he might perceive as more economical and responsive.

6.50. Asked for views on the future of the independent sector, Lucas said that it took a great interest. There was no doubt that there was ability to adapt to new technology, but the independent garage had to become much more professional and efficient, and have better access to technical support. In fact Lucas provided a quasi-franchising service, where the garage had access to training and support and could put up a Lucas sign.

6.51. The availability to the independent sector of computer links had improved dramatically over the last three years. Lucas had been promoting, with the SMMT, the use of an ordinary personal computer to act as an interface between a distributor's own computer and those of others. The information and improved operational efficiency these systems provided would strengthen the independent sector.

6.52. The future of the independent sector was also dependent on its ability to keep pace with changing product technology. Although failure rates on car electronics were low, it was important for the independent garage to be able to service sophisticated cars with this equipment. For a variety of reasons Lucas saw it as important to assist the independent garage to survive by providing technical support, training and products. It was also vital for know-how to be available to the test equipment manufacturers so that diagnostic equipment for the independent garage could be developed for a wide range of cars. This could be done by a number of means but it was highly desirable that the car manufacturers made the basic data available. Test equipment manufacturers needed the entry protocol and the fault codes for each type of car to enable them to provide the software necessary for the independent garage to be able to service the car. It was, therefore, essential to the health of a free independent aftermarket sector that the vehicle manufacturers should give access to the technical information required for fault diagnosis on current and planned electronic systems. This could be in return for a fee which bore a reasonable relationship to the cost of making the data available.

6.53. Commenting on possible remedies, Lucas said that, given the existence of a strong independent distribution sector, it did not believe that further restrictions on bonus schemes were necessary to ensure healthy competition in the automotive aftermarket. It was also likely that car suppliers would continue to be able to control their franchised outlets by one means or another. It was unreasonable that car suppliers should be able to force franchised dealers to obtain parts only from themselves and therefore Lucas supported the removal of any prohibition on franchised dealers entering into distribution agreements for parts with independent suppliers. As far as the requirement to supply branded parts on comparable terms direct to non-franchised dealers was concerned, the practice of making manufacturer-branded parts more generally available could, if successful, undermine the independent sector. On balance it did not support that proposal. The difficulty in the removal of restrictions by car suppliers on their component manufacturers which prevented their selling to others where financial or technical assistance had been provided was the definition or quantification of technical assistance. It would seek to strengthen the independent sector. There should be no restriction on supply where no financial or technical assistance was provided. The only permissible restriction should be where the part was patented. The part was the design property of the vehicle manufacturer under intellectual property legislation-not yet clarified-or where tooling was paid for in full by the vehicle manufacturer. In such cases the component manufacturer should still be free to sell subject to the payment of a royalty which would have to be settled at a reasonable level.

Quinton Hazell PLC

6.54. *Quinton Hazell PLC (QH)* is part of a United States company which has many subsidiaries, but is predominantly an aftermarket supplier. In 1991 QH had a turnover of £94 million, mainly in the replacement parts market. It was the policy of some companies to make large volumes of a small number of parts, but QH's policy was to be a full range supplier, and it had some 15,000 part numbers in its base business alone. It sought as far as possible to offer parts suitable for all car models so far as the market for individual parts was of sufficient size to make supplying those parts a good commercial proposition.

6.55. It was also in the OE market, where its major product was water pumps. This was a growing side of its business because the quality and design of the OE parts now being manufactured were such that many would last for the life of the car, precluding any replacement business. A corollary of the quality required was that the tooling for a new part might be very costly-for instance, up to £500,000 depending upon the type of component being manufactured-so that if demand for the car never reached the predicted level, the OE manufacturer was left with no way to cover costs. For that reason QH preferred to take assistance with

the cost of tooling even if it meant not being allowed to use that tooling for its own aftermarket production. However, tied tooling did not prevent QH from designing similar parts which would probably be designed to fit more than one car. QH made some parts for virtually the whole United Kingdom car parc.

6.56. Car manufacturers had a price advantage because they bought such large quantities of OE parts, and their RE parts were often supplied at the same price, but on the other hand the independent sector had a very efficient distribution system. QH held stocks and gave delivery of a part to the independent distributor within 24 hours of ordering. It said that its OE and RE parts were designed to the same quality, but there were lower-quality parts on the market, mainly from abroad, and since these continued to sell, they appeared to be acceptable to some people.

6.57. For a number of reasons the RE market was contracting. First, as the manufacturer went for total product designs (black box) from specialist component manufacturers it would be difficult to reproduce similar designs for the independent RE market. Secondly, the car manufacturer was moving towards a five-year warranty, during which time parts would not be expected to need replacement. Thirdly, roughly 50 per cent of cars were now company-owned; these were changed less frequently than ten years ago, thus giving the franchised dealer a longer service period before the car moved on to its second owner and (typically) the independent garage. But there were also other factors affecting the size of the RE market.

6.58. The car would eventually become a totally different concept as steering, suspension, transmission components and brakes as well as the engine become electronically controlled. There were, however, already some companies which were starting to recondition engine management systems. There seemed to be a new opportunity there for the right kind of electronics-based company. At the moment, if something went wrong the independent garage would take the car to a specialist centre.

6.59. Turning to possible remedies, QH said that it could see nothing wrong with franchised dealers giving performance-related bonuses, rebates and discounts; they existed in the independent market- there was no difference. The idea of the removal of the prohibition by car suppliers on franchised dealers entering into distribution agreements was acceptable.

6.60. On the point that where no financial or technical assistance had been given for the production of OE parts, there should be no restrictions by the car supplier on component manufacturers supplying such parts through independent outlets, QH said that it knew that car suppliers were putting pressure on component manufacturers, though it did not affect QH at the moment, but it did think that where tooling had been paid for, production should be used only for the car supplier. In other cases where only some finance had been obtained QH thought that the market would take care of the outcome.

6.61. Looking ahead QH thought that numbers of both component suppliers and car manufacturers would be reduced. The aftermarket for many components would contract to such an extent that only the OE supplier would be prepared to supply RE parts, and this could lead to higher prices. However, although it took a long time to work through, the consumer eventually became aware of this sort of problem with a given car, and suppliers knew that this was the case.

Sun Electric UK Ltd

6.62. *Sun Electric UK Ltd (Sun)* is a subsidiary of the United States company Sun Electric Corporation which manufactures and sells car engine diagnostic equipment amongst other automobile-servicing equipment. Sun said that it provided diagnostic equipment for both franchised and independent garages. It had two training schools which covered EMS diagnosis and fault tracing.

6.63. Sun said that the fitting of electronic control devices in current production cars had greatly increased in the last ten years. They were now included in all vehicle systems: ignition, fuel injection, ride height, braking, steering geometry, passenger comfort and entertainment. These devices were software-controlled and the software was becoming increasingly complex and sophisticated.

6.64. Repairing cars fitted with these devices required a computer-based facility. The hardware systems on the car could typically be categorised into three groups:

- (a) ECUs;

- (b) sensors, which detected and measured many conditions in the car; and
- (c) actuators which performed functions, not under the direct control of the driver.

6.65. The software system comprised a program to monitor and control the hardware, and a communication element. Use of the diagnostic content of this element was necessary for the repairing of the car, but the information and method of accessing it was regarded as confidential, usually to the car manufacturer and sometimes additionally to the system manufacturer. Manufacturers used their own testing devices which were mandatory acquisitions for the franchised dealer and exclusive to them. Independent garages could not acquire the equipment nor its associated software, which was updated as new models or revisions were introduced. Where the manufacturer insisted on protecting this information no independent garage could effectively compete with a franchised dealer.

6.66. There were a number of reputable and well-established suppliers of automotive diagnostic equipment, such as Sun, which supplied both franchised and independent repairers, and in some cases the manufacturers themselves. They were largely excluded from the information network because of the proprietary control of the codes for communication with the ECU and the system itself. Without such information it was impossibly expensive to design effective diagnostic testing methods and equipment. It was not the intention of, nor was it practical for, diagnostic equipment manufacturers to reprogram the ECU, but it was necessary to access it at some levels to measure its output and its impact on its peripherals. Sun had consistently offered car manufacturers confidentiality of their systems to protect their interests, and had suggested licensing agreements.

6.67. The car manufacturers argued that interference with the ECU might result in product liability claims on them, or modify the performance of the car. However, in the United States the required information did eventually reach the public domain.

Unipart Group Ltd

6.68. *Unipart Group Ltd* has a broad interest in the supply and manufacture of car parts in the United Kingdom. These interests include Unipart Demand Chain Management, a division of Unipart which operates, under contract, the aftermarket businesses of several vehicle manufacturers (see paragraphs 7.80 to 7.82).

6.69. Unipart said that it was aware of a number of areas where, in the past, it had been claimed by interested groups that restrictions were operated which did or could prejudice their interests. They included complaints from component manufacturers relating to actual or potential abuses by vehicle manufacturers in relation to matters such as enforcement of copyright and trade mark/branding rights, ownership of tooling and supplier/franchised dealer parts purchasing exclusively.

6.70. Vehicle manufacturers too were known to have concerns and complaints relating to practices operated by component manufacturers which, although not perhaps given the same degree of public exposure, were believed by them to be genuine grievances.

6.71. Unipart felt that in many cases these alleged or potential difficulties did not occur to the extent or have the effects sometimes claimed for them. In other cases complainants either failed to recognise the degree of their self-interest, the extent to which the balance of commercial interest would swing too far the other way if the practice was changed, or the often valid reasons for and counterbalancing factors behind the practices.

6.72. Unipart was a very broadly-based participant in the United Kingdom automotive parts market. Consequently, although Unipart began its business life as the parts division of a vehicle manufacturer it believed that its now diversified product range and varied routes to markets demonstrated very clearly that so-called 'restrictions', whether operated by vehicle manufacturers, component suppliers or outlet trade associations, if in reality they had any effect at all, were not a significant bar to successful growth. What was likely to be an increasingly severe restriction on the ability of the United Kingdom automotive industry to preserve and expand its home market and drive into export markets was an inability to address, and meet or exceed, world class standards in areas such as training, productivity, customer service, manufacturing

technological innovations and marketing excellence which are being constantly driven upwards, often in an outstandingly successful way, by Japanese and other world players.

Some component manufacturers' views on possible remedies

6.73. The MMC sought the views of some component manufacturers on the practicability and effect of the following possible remedies that might directly affect them:

- (a) prohibition or modification of performance-related rebate and bonus schemes for parts (when offered by car suppliers);
- (b) removal of any prohibition by car suppliers on franchised dealers entering into distribution agreements for parts with independent suppliers;
- (c) where no financial or technical assistance for the production of OE parts has been provided, removal of any restrictions by car suppliers on component manufacturers' supply of such parts through independent outlets to the RE market; and
- (d) where financial or technical assistance (eg tooling) has been provided by car manufacturers for the production of OE parts, limitation to a specified period of restrictions on supply of such parts through independent outlets to the RE market.

International Radiator Services Ltd

6.74. *International Radiator Services Ltd (IRS)* said that it could see no reason why performance-related rebate or bonus schemes should be prohibited. Clearly any supplier wished its customers to maximise their spend with them, and to that end offered rebates and bonuses for the achievement of targets. This was a commercially legitimate inducement provided that such inducements were not cross-linked in any way to other business features that competing suppliers would not be able to match, such as to the terms given on cars or low-cost financial support on property development.

6.75. IRS supported an absolute prohibition on any limitation placed by car suppliers on their dealers concerning whom the latter might deal with on parts or any other product. It did, however, accept that limitations should be permitted in the case of replacement parts fitted within the standard warranty period, but excluding extended warranties. Where purchased by the consumer these were no more than an insurance policy. Where given 'free' the cost had been incorporated into the price of the car. In both cases such extended warranties could be monopolistic if they were valid only if service was carried out at fixed intervals and at a franchised garage and only the car suppliers' recommended replacement parts could be used.

6.76. It regarded financial or technical assistance for the production of OE parts as a commercial arrangement between customer and supplier, which should not influence such matters as limitations on trade. If assistance was given it would expect this to be reflected in a lower unit price. There was no reason other than for restraint of trade why any car supplier needed to finance or otherwise assist an OE component supplier, and in fact the trend was for greater responsibility for engineering, design and development to be put on the component supplier rather than the other way round. Where technical assistance was given this was normally by providing specifications or validating component performance criteria-both factors which were quite normal between suppliers and customers of engineering components whether parts for cars or machine tools.

6.77. In addition IRS commented that the proliferation of car models, engine sizes and component derivatives was advantageous to the car manufacturer which controlled its OE suppliers' distribution because it was less economic for independent manufacturers to make RE parts and for independent distributors to stock a comprehensive all-makes range. Technological change and improved component quality would reduce the size of the available replacement market.

GKN Automotive Ltd

6.78. *GKN Automotive Ltd (GKN)* said that it had not, to date, had any restrictions placed upon it by the car suppliers, in terms of supply through independent outlets to RE markets. With reference to (a) it might be possible to modify performance-related bonus schemes so that the competitive positions of individual parts were not unduly distorted. On (b), it was difficult to argue that this restriction should be removed, where the performance of the part affected the reputation of the car supplier.

6.79. GKN argued that (c) was practical and fair, but as far as (d) was concerned, while it might be fair in principle, in practice it would be difficult to determine the level of assistance which qualified for the application of restriction, and what period the restriction should cover, since this might vary from part to part.

A major components manufacturer

6.80. A *major components manufacturer* said that in general it was in favour of the possible remedies. However, there were two other forms of restriction which were a source of growing concern. First, there was a tendency of OE manufacturers in some fields to refuse to allow component suppliers to apply their own brands or trade marks to components. Since customers had a natural tendency to prefer the product as featured in the OE engine, they were steered by this device into buying replacements from the OE spares outlet of the car supplier, and not from the independent aftermarket, since it was only the OE manufacturer's brand which appeared on the product. This was particularly unfair on component manufacturers which had invested large amounts of effort and money (sometimes as much as 5 to 6 per cent of sales per annum) in the design of components and were then not permitted to apply their own brand name to the components they had designed.

6.81. Secondly there was a growing tendency among certain manufacturers to refuse to place OE business with component suppliers so long as the latter were active in the aftermarket. Both these restrictions were aimed directly at limiting, if not eliminating, the independent aftermarket, with consequent reduction of choice for the public at large.

An automotive filter manufacturer

6.82. An *automotive filter manufacturer* said that it would be pleased to see all the remedies mentioned introduced, in the interests of fair trading. However, it felt that in practice it would be difficult to prevent covert replacing overt restrictions. There were two major changes that it would like to see introduced. First, the majority of car manufacturers insisted on 'own branding' and refused to accept any form of identification of the origin on the part. In this way the actual manufacturer of the part was made anonymous and had no opportunity to demonstrate his credibility as an OE supplier.

6.83. Secondly, the car manufacturer provided warranty cover for the car only if 'genuine' or 'approved' replacement parts were fitted. As the warranty period increased (the trend in recent years) the car suppliers' hold on the component market became progressively stronger. It believed that until those two restrictions were prohibited, car manufacturers would continue to stifle aftermarket opportunities for the component manufacturer, and this was against the wider public interest.

Distributors

Automotive Distribution Federation

6.84. The *Automotive Distribution Federation* (formerly the *Motor Factors Association*) said that it represented 90 manufacturing companies which were both OE and RE suppliers and about 1,000 outlets supplying wholesale in excess of 60,000 different parts for the entire United Kingdom car parc. These companies had turnovers from about £0.5 million up to £150 million and covered about 60 per cent of the replacement car parts market, but this was almost entirely for repairs on cars four years old and over. They supplied independent garages within the Retail Motor Industry Federation (RMIF) plus other independent garages and fleet operators numbering up to 25,000. 95 per cent of their parts were sourced from manufacturers that supplied OE equipment. Only a minimal amount was bought through the car

manufacturers' network, but ADF members were selling, in effect, the same parts that were fitted on the assembly line and would be fitted by a franchised dealer to a customer's car. The main difference between ADF members and the franchised dealer was that the latter supplied parts mainly for the make of car he sold.

6.85. ADF argued that the parts supplied by its members were identical to OE parts, but this was difficult to prove because OE parts manufacturers were naturally reluctant to make any statement that might prejudice their chances of winning further contracts from vehicle manufacturers. However, now that there was a British Standard (BS 5750) covering the quality of management systems both in manufacturing and distribution, a distributor could apply for this management quality standard and if this was obtained his parts distribution would be seen to be on a par with the manufacturers' RE parts distributor.

6.86. In 1982 when the Car Parts Order was made members had thought that business with franchised dealers would increase, but it had not, because manufacturers had used various devices like warranties, forced full-line discounts, and frequent slight changes in parts specifications, to ensure that they did not lose business.

6.87. ADF had the following particular concerns:

- (a) It believed that when new models were released vehicle manufacturers put pressure on their component suppliers to restrict the release of replacement parts to the independent aftermarket. In addition, to secure OE contracts, component suppliers were often forced to quote uneconomic prices and had to depend on profit made by selling at much higher prices to the independent aftermarket.
- (b) Vehicle manufacturers required continuity of supply; consequently their orders for components were given priority. Component suppliers had no way of knowing what percentage of their supply was allocated to cars on the assembly line and how much to replacement spares. A vehicle manufacturer could thus buy up key components and thereby restrict independent aftermarket supply.
- (c) Both standard and extended warranties had a restrictive effect on sales of parts by independent suppliers. Members of the public purchasing cars were often obliged to have all servicing and repairs done by franchised dealers or risk invalidating their standard warranty; extended warranties similarly secured future parts business for car suppliers. Companies with car fleets tended to change vehicles on a regular basis, and were caught in a series of extended warranties which meant that they did not fit anything other than OE parts. ADF argued that invalidation of warranty through the fitment of non-approved replacement parts was an unfair practice as, in many cases, the RE supplier was the same supplier as to the vehicle manufacturer; or the RE manufacturer supplied parts to an equally high or even higher standard.
- (d) Vehicle manufacturers would not release some technical information, particularly diagnostic software, except to their own network of dealers. This had the effect of making life very difficult for the independent garage which, in many cases, would be able to offer a better, less expensive service to owners of newer vehicles.
- (e) Parts fitment information was similarly withheld. Car suppliers were able to identify through chassis numbers and engine numbers the correct replacement parts. The independent aftermarket was reduced to guesswork which could result in wrongly supplied parts, especially around the dates of model updates, whatever suppliers might do to produce accurate cataloguing.
- (f) Car manufacturers had no commitment to stocking a full range of parts for all vehicles supplied by them. Interior trim parts in particular were not stocked for vehicles more than three or four years old. Similarly, parts were not held on older models nor less popular models for any great length of time. Conversely, the independent aftermarket offered a complete package.
- (g) Many components were referred to as 'captive parts'-this applied to some mechanical and body components and interior and exterior trim in particular. The price of these parts was grossly inflated

as there was no competition. The excess profits created by sales of these 'captive parts' could be used to fund cut pricing on non-captive replacement components and service parts.

- (h) Car manufacturers were unwilling to supply independent motor factors with parts for resale-or if they were willing, only at a price that allowed them to make independent motor factors uncompetitive. Conversely car manufacturers sometimes swamped the market with cheap parts when shifting surplus stocks. Garages saw OE parts available at cheap prices and assumed that they were widely available on a long-term basis at that price. These cut prices were sometimes due to reductions in new vehicle sales resulting in a need by vehicle manufacturers to shift their excess stock of parts quickly and convert them to cash or might even be deliberate policy to undermine the independent sector by selling at artificially low prices, subsidised by other parts sales and sales of new vehicles.
- (i) Some car suppliers only allowed many components to be distributed through their own network of main agents thus considerably limiting consumer choice. They had a confusing pricing policy aimed at making it difficult for the independent sector and the consumer. Full price lists were not available and retail prices were constantly changed.

Factoring Services Group

6.88. The *Factoring Services Group (FSG)* (a co-operative network of 360 independently-owned motor parts and paint wholesale distribution companies, with 573 outlets throughout the United Kingdom), complained that:

- (a) Car suppliers used their buying power to stop parts manufacturers that supplied them from supplying into the free market, thereby creating a monopoly of supply for the car assembler. FSG stressed that the parts it referred to were normal parts, of non-unique design and manufactured using universally-known traditional manufacturing methods. FSG said that car manufacturers restricted supply so that they could monopolise the supply of parts required for service replacements or repair. Because the car market was controlled by a relatively small number of major companies, the orders involved were very large. In FSG's view it was therefore extremely unlikely that any individual component manufacturer would be willing to agree that this situation existed for fear of future business being placed elsewhere.
- (b) Car suppliers used their buying power to stop component manufacturers putting their name or brand on items supplied to them-thereby leading the consumer to believe that such parts were available only from the car assembler network (this applied particularly in the case of easily broken parts such as plastic light covers and headlamp units). A simple piece of plastic became very expensive in contrast with similar pieces of plastic used in toys and containers.
- (c) Car suppliers advertised standard parts which they had bought in, and which were generally available, in a manner which purported that they had manufactured the parts themselves, and that the parts were available only through the car dealer network-thereby constructing a monopoly situation by propaganda means.

Agricultural Trading Commodities (Yorkshire) Ltd

6.89. *Agricultural Trading Commodities (Yorkshire) Ltd (ATC)* said that it was possibly the largest independent distributor of Ford parts. It supplied some 30 wholesalers who dealt directly with Ford franchised outlets. Its activities consisted mainly of the sourcing of spare parts for Ford vehicles from independent suppliers of non-original OE-quality spare parts and in some instances original spare parts via parallel importing. ATC had a range of some 1,000 parts, from body panels to steering and suspension parts. Its turnover was about £9 million.

6.90. Parts and servicing operations were a more and more important contribution to the profitability of franchised dealers, without which many of them would be in difficulty. The fact that companies like ATC could sell into the dealer network showed that there were large pricing anomalies in Ford's pricing within the EC and between parent organisations in Brazil, Argentina and Turkey.

6.91. Pressure was being put on ATC to stop its activities, and, it believed, on Ford dealers to stop them buying from ATC. ATC believed that car suppliers made the bulk of their profits from the sale of spare parts, and on average the Ford dealer could buy spare parts from independent factors such as itself at an average 40 per cent below their current buying price from Ford.

Allmakes Ltd

6.92. *Allmakes Ltd (Allmakes)* said that it specialised in the sale of spare parts and accessories for the Land Rover and Range Rover. It had a world-wide sales turnover of about £3.5 million for these products. However, it was virtually impossible to sell to franchised dealers, although many of its prices were clearly cheaper than those of Land Rover and the parts were identical.

6.93. Allmakes believed that the reasons were that the franchised dealers were exhorted to be loyal to Land Rover; they were told that warranty claims would not be met unless genuine parts were used; they were given sales targets with a considerable year-end bonus if the target was met; and they were told that non-genuine parts were of inferior quality to Land Rover parts. They believed that similar policies were adopted by other manufacturers.

6.94. Allmakes felt that the only way that these difficulties could be overcome was for car suppliers to be made to inform their franchised dealers of their right to buy parts and accessories of equivalent quality from other sources, without it having any effect on their franchise.

DANA Distribution (UK) Ltd

6.95. *DANA Distribution (UK) Ltd (DANA)* said that it was a wholly-owned subsidiary of the DANA Corporation of Ohio. It had organisations in 27 countries; in the United Kingdom it distributed parts to 130 owned branches from a distribution centre at Milton Keynes. The bulk of its business was through Brown Brothers. It did not supply tyres or exhausts. DANA's turnover was about £25 million of which 95 per cent was in car parts. DANA's parts would normally cover cars out of warranty but less than 15 years old, although it did have a heritage parts stock. But it was not possible to cover all parts for all cars.

6.96. Most of its parts were sourced from OE component manufacturers. There were quite a lot of products which were not available initially. That was because the car manufacturer would not allow the parts manufacturer to sell initially into the aftermarket, or if the car manufacturer was making the part itself there was a wait until an independent had tooled up to make the part. For instance, with a rear light unit the delay could be one to two years. However, something like a headlamp unit that needed really expensive tooling, which could cost about £1 million, would never be available on the free market if the manufacturer had tied the OE company.

6.97. There were two schools of thought about the supply of the new electronic equipment. One was that franchised dealers would not want to keep all the work when cars were getting older, cluttering up their workshops when they wanted to get on with servicing newer cars. On the other hand some said that requiring the new equipment would simply drive down the price of second-hand cars, which would put a different sort of pressure on the manufacturer.

6.98. Asked how significant car suppliers' agreements with franchised dealers were, DANA said that dealers did not really want a non-branded part in their stock because it might be seen by somebody and frowned upon. Secondly, there were significant rebate possibilities that a franchised dealer could get by increasing his parts business from the car supplier. With the difference in the number of parts involved there was no way DANA could give the same sort of value on rebate.

6.99. Asked about extended warranties, DANA said that these were to keep the car going back to the franchised dealer, which seemed a little unfair.

6.100. Asked whether there were not sound reasons for the manufacturers specifying an OE part, in that quality control might go down, DANA pointed out that the independent sector supplied cars over three years old now, and sometimes over one year old. Why protect one-year-old cars more? However, DANA would definitely like to have standards set for parts-many independent manufacturers were now working towards the BS 5750 standards. There was increased customer awareness in this area.

6.101. DANA also supplied number plates, but this was a small business. The franchised dealers obviously controlled most of the market because they registered all the new vehicles.

A large distributor of car parts

6.102. A company which was a *large distributor of car parts* believed that, in certain sections of the replacement car parts market, there were effective monopoly conditions which worked to the disadvantage of those companies like itself which both served the motoring public and were independent of the car suppliers. Its major concern was that car suppliers continued to seek ways of constraining their independent competitors' development in the replacement parts field, by pursuing policies which appeared directed towards obtaining a monopoly.

6.103. The company considered that the inevitable result of such behaviour was that the consumer paid higher prices. In the process, the potential of independent distributors and, perhaps more important in the context of the national economy, the future of component manufacturers was also threatened. It put forward the following specific concerns:

- (a) There was a trend on the part of vehicle producers to make an increasing number of parts captive to their own network, even though these parts were not produced by them; typical approaches were:
 - (i) insisting that the component manufacturer made the product with the car manufacturer's logo only;
 - (ii) insisting that aftermarket rights were exclusive to them and that the product was not made available through the component manufacturer's distributors; and
 - (iii) demanding that copyright in drawings made by component producers was assigned to them.

The company said that in justifying exclusive aftermarket rights, manufacturers advanced spurious technical reasons which frequently touched on consumer safety, and were often believed by non-technical consumers. It was clearly the case that unsound parts could threaten consumer safety, but it was far from the case that only an OE part from the car producer was sound, as the number of vehicle recalls showed. Where the part was the same in any case, and only the distribution channel was different, the claim was clearly directed at enhancing profitability at the expense of the consumer by preventing competition.

- (b) The use of non-original parts (often only a matter of the brand name rather than the product itself) could invalidate the vehicle manufacturer's warranty on wholly unrelated items-intrinsic quality was not considered in these matters.
- (c) Large year-end rebates on the parts purchases of a franchised distributor, related to volume, were used to encourage the purchase of parts which were available at lower prices. The consumer did not necessarily benefit from these rebates.
- (d) Information on software developed for diagnostic machines, invariably developed by an equipment manufacturer, was not made available except to franchise garages.
- (e) Some extended warranties were conditional upon all service and maintenance being carried out at the franchised dealers, including items which were not covered by the extended warranty.

Dealers and repairers

Retail Motor Industry Federation and Scottish Motor Trade Association

6.104. The *Retail Motor Industry Federation* and the *Scottish Motor Trade Association (SMTA)* said that they were the principal trade associations covering the retail motor industry in the United Kingdom. Their 15,000 members encompassed all main trading areas of the sector from the largest motor vehicle distribution groups to single-site used car retailers and non-franchised vehicle service outlets, as well as motor cycle retailers, vehicle recovery operators and petrol retailers.

6.105. Constraints on dealers in choosing sources of parts supply were:

- (a) pressure from manufacturers on their franchised retailers, mainly to use manufacturer-sourced parts and accessories;
- (b) the reliance of independent service providers on access to the technical support normally offered by franchised retailers to independents who regularly bought parts from them; and
- (c) increasingly stringent Motor Vehicle (Construction and Use) regulations and national and EC product liability requirements, which made it increasingly important to use high-quality replacement parts.

6.106. The RMIF and the SMTA said that the joint effect of the action taken following the 1982 MMC report on *The supply of car parts* and Article 5(2)c of the Block Exemption Regulation 123/85 had been to ensure that there was a highly competitive parts supply to all areas of the motor vehicle service and repair industry in the United Kingdom. Nevertheless both organisations thought that there was a case for some strengthening of these helpful legislative ground rules. It was still possible for manufacturers to exercise strong economic pressures on dealers to use manufacturer-sourced parts almost exclusively, partly because in circumstances of car or parts shortages the most 'loyal' dealers would, not unnaturally, be given priority.

6.107. There were a number of other factors which encouraged purchasing from the car suppliers' distributors, for instance it was easy to order and reorder automatically by on-line computer, and the computer kept the stock records and issued the invoices. Every so often the dealer might see something cheaper on offer, but he had to balance against the saving the cost of having staff to deal with one-off orders, possible loss of bonus points, questions of reliability of product, whether he could get a credit line with the supplier, and how soon the part or parts could be delivered. The saving was often not worth the extra trouble.

6.108. As far as remedies were concerned the RMIF and the SMTA supported the prohibition of linked bonus schemes whether of cars and parts or parts, accessories and number plates, and suggested the amendment of the Restriction on Agreements Order to make it clear beyond doubt that any discount, bonus terms or other incentives offered to franchised dealers by manufacturers or importers in relation to the supply of replacement parts for their vehicles must be entirely separate from, and in no way related to, bonuses, discounts or incentives available on other products or services supplied to the retailer by the manufacturer or importer.

6.109. They did not, however, support the prohibition or modification of performance-related rebate and bonus schemes for parts. They could find no parallel for such a prohibition within any other area of the EC. The United Kingdom market compared favourably with parts markets in other EC member states and indeed with other retail sectors. Performance-related schemes were part of the normal competitive process and should encourage high availability of parts items to the benefit of the consumer.

6.110. They supported the removal of any prohibition by car suppliers on franchised dealers entering into distribution agreements for parts with independent suppliers. The dealer should be able to do what he considered economically advantageous. This also applied to prohibitions on purchases from franchised dealers in other EC states.

6.111. As far as requiring car suppliers to supply parts to franchised and non-franchised customers on comparable terms was concerned, the franchised dealer was involved in the wholesale and retail supply of parts, and acted as stockholder for the smaller independent repairer, who could neither justify nor afford significant stockholding of parts across a wide range of makes of car. The terms offered to franchised dealers compensated for their very sizeable investment. Current arrangements seemed to meet the independent repairers' reasonable needs.

6.112. The RMIF said that the franchised dealer, rather than the car supplier, was usually the source of technical advice, including assistance with fault diagnosis, to the independent repairer. The RMIF and the SMTA thought that such information should only be available through the franchised dealer network, where there was commitment to investment in this area on an ongoing basis.

6.113. They believed that there should be no restrictions on dealers' ability to fit non-branded parts, but accepted that repairers of all kinds, whether franchised or independent, should be under some obligation to inform customers when non-branded parts were used.

6.114. On warranties, the RMIF and the SMTA said that members would not refuse warranty work simply because the car had been serviced elsewhere, provided that the fault was independent of the parts serviced. With the extended warranty the situation was different in that the customer bought a certain product, a condition of which was that the car should be serviced within the manufacturers' franchised network. They were concerned that the proposal that car suppliers make clear that franchised servicing was not a condition for honouring consumer rights under the Sale of Goods Act could permit untrained and ill-equipped service providers to repair or service a vehicle without affecting warranty requirements.

6.115. In commenting further on various possible remedies put to it by the MMC the RMIF said that certain of the remedies (without specifying them), if implemented, could themselves be the source of considerable mischief within the market-place to the detriment of the consumer. It also noted that certain of the proposed measures could be implemented only in all EC member states.

6.116. As part of its evidence the RMIF submitted a report prepared for it by consultants Booz Allen & Hamilton (Booz Allen) entitled *The UK Car Parts Market in Context*. The purpose of the report was to describe and quantify the major flows of parts through the distribution channels to the end-user. The report outlined the roles and functions of the various operators in the parts aftermarket, and compared the position in the United Kingdom with that in some other European countries. Booz Allen described the United Kingdom as the leading European market in providing the consumer with greater and more effective choice of aftermarket installation outlets and expected other countries to evolve towards the United Kingdom pattern. The overall conclusion of the report, based on the analysis undertaken, was that there appeared to be no structural case to answer at the level of the total market.

Society of Motor Manufacturers and Traders (Franchised Vehicle Retailers Section)

6.117. The *Franchised Vehicle Retailers Section of the SMMT* said that it could see no objection to bonus schemes which were optional to the dealer, nor would it be practicable to prohibit them. As far as removing any prohibition on franchised dealers entering into distribution agreements with independent suppliers or purchasing branded parts from other franchised dealers in the EC were concerned, no such prohibitions were known to exist.

6.118. Non-franchised dealers already had access to branded parts at trade prices through franchised dealers' parts departments, and volume rebates were available where appropriate. But making parts available direct from the vehicle suppliers and requiring diagnostic equipment to be made available would encourage non-franchised dealers to take a greater share of the aftermarket business. Policy should, on the contrary, aim to strengthen the position of franchised dealers because of the need to maintain high standards of repair and maintenance for environmental and safety reasons.

6.119. The FVRS said that an important point of principle was that technical information was the intellectual property of the car suppliers. It would be unreasonable to require them to pass it on to third parties against their wishes. Furthermore diagnostic manuals and other technical information were designed for the benefit of franchised dealer personnel who had been highly trained to use them. Such information in the hands of untrained personnel at non-franchised garages would not produce good results.

6.120. The suggestion that customers should not be told when a non-branded part had been used in servicing was wrong in principle because it sought to conceal from the customers the nature of the item they were purchasing. As for extended warranties they created contractual obligations, sometimes embodied in separate insurance agreements between the customer and an insurance company. Manufacturers, dealers and insurers could not be expected to offer extended warranties if they had no knowledge of the way in which the car was being serviced.

Vehicle Builders and Repairers Association

6.121. The *Vehicle Builders and Repairers Association (VBRA)* said that the majority of its members' work was for insurers. The parts manufacturers' retail price was passed on to the insurer, sometimes with a

discount if the repairer was in an approved-repairer scheme, in which terms were negotiated on a periodic basis.

6.122. VBRA policy was that independent and franchised bodyshops should repair cars to the manufacturers' specification using their parts, as manufacturers' warranties insisted that only genuine parts were used and it would normally be correct to use genuine parts outside the warranty period also, to ensure that the vehicle returned to pre-accident condition. The VBRA said that although its members were able to obtain discounts for genuine parts in areas where there was some competition amongst suppliers, eg in conurbations, in other, particularly rural, areas where there were few suppliers, discounts could be very low or non-existent and repairers' margins were subsequently reduced. This was certainly the case with Japanese cars and with less popular models.

6.123. The VBRA also said that manufacturers were increasingly keeping technical information on car body repair methodology in-house; training tended to be restricted to their dealers only, putting the independent repairer at a disadvantage.

Peugeot Talbot Dealer Association

6.124. The *Peugeot Talbot Dealer Association (PTDA)* said that it should be understood that a manufacturer made replacement parts to meet the very high specification of his car and for them to be as near as possible to the original units. Where a part had been deemed to be unsatisfactory, the manufacturer would make, supply and recommend its replacement, always bearing in mind the continued safety and satisfaction of the customer. This gave the customer and the dealer the security of knowing that the parts fitted were of the highest possible standard.

6.125. If manufacturers' parts were made generally available, the current range of parts stocked by dealers would be reduced immediately, with only fast-moving parts being held, with no inducement under the franchise agreement to hold more. Service on a national basis would be seriously impaired, affecting the quality of service that the franchised dealer could give to his customer. The PTDA said that to compensate the franchised dealer for his huge investment in premises, parts and labour, he should be protected in some way from the 'stock it high and sell it cheap' sort of operation. In the total package the franchised dealer offered the customer a better service, better quality, and, in most instances, better all-round value for money.

6.126. Manufacturers and importers supplied their branded parts exclusively to their franchised dealers, who were encouraged to act as wholesalers and derived additional income from this activity. It seemed wholly reasonable for manufacturers and importers to constrain the repair of their cars during warranty exclusively to the franchised network, which had the equipment, information and training to service those vehicles. The PTDA said that in its view it also appeared reasonable to expect dealers to inform customers when captive parts were not used in the servicing of their car.

Appleyard Group plc

6.127. *Appleyard Group plc (Appleyard)* said that it was a nation-wide group, with three main operating areas. It had a contract hire and leasing business, a commercial vehicle business, and a car distribution business. The latter included Ford, Jaguar, Rover, Land Rover/Range Rover, and a group which was a mixture of Peugeot and Volvo franchises based in the North-East, and its most recent acquisition was an Audi/Volkswagen group. There were a small number of other franchises.

6.128. Asked about car suppliers' requirements on spare parts, Appleyard said that most manufacturers pressed their franchised dealers to take their parts rather than parts from independent suppliers. There were good reasons for that, but it was possible to get some parts of a similar quality on more competitive terms. One of the difficulties was that some parts could only be bought from the car suppliers, and they used this to ensure, by various devices, that buyers remained as captive as possible for as long as possible. But it could see channels of distribution changing according to type of part. The two opposites were brake pads and electronic control equipment-the latter would probably never be freely available, but it could see some fast-moving parts moving away from the car suppliers.

6.129. One of the things that would have an effect on the market was that smaller areas of operation were becoming uneconomic, and towns like Lewes, for instance, had fewer and fewer garages serving the area, and the smaller people who were left needed to find a more economic source for fast-moving items. Other

things like safety being equal, Appleyard would welcome the freedom to source parts from areas other than the manufacturer.

6.130. It was true to say that manufacturers insisted that a car had been properly serviced by their authorised dealer, if warranty work was to be done. Appleyard supported this on safety and product liability grounds. Giving companies like Halfords and Kwik-Fit authorisation to do warranty work was a matter for the manufacturer. Most people tended to take their car back to the supplying dealer while it was less than one year old. Appleyard had fast-fit operations but these concentrated on the two- to five-year parc, doing general servicing, replacing exhausts, clutches and brake pads. After three years about 75 per cent of consumers had left the franchised dealer to go to an independent servicing outlet.

6.131. Extended warranties were to ensure that the supplying dealer kept an element of the over-one-year service work, but Appleyard did not see it increasing with the volume franchises, only with those with small market share-type franchises.

6.132. Pressure from manufacturers varied from franchise to franchise. Dealerships would be surveyed once or twice a year and points awarded according to corporate signage, workshop tools, layout and standards, appearance of the showroom and so on. Points were also awarded for using their car supplier's in-house finance company, whether or not their company was used for extended warranties. At the end of the year bonuses were paid on these points scores.

T Cowie PLC

6.133. *T Cowie PLC (Cowie)* said that its predominant activities were in vehicle-related finance: contract hire, hire purchase and leasing. It operated some 51,000 vehicles on contract hire. Its second main objective was the retail sale and service of cars, to both corporate and retail customers.

6.134. Asked to what extent the manufacturer induced the group to use its replacement parts, Cowie confirmed that for warranty work that was so. For other work there was no requirement to do so, but as a group it tended, whenever possible, to use manufacturer-sourced parts. However, Cowie could source the manufacturers' parts more cheaply directly from the original suppliers to the manufacturer rather than through the manufacturer; it had an operation set up to source volume parts both in the United Kingdom and in Europe. This method of supply was also used by the large quick-fit or motorists discount chains throughout the United Kingdom. The parts supplied did not have the manufacturers' stamp but were 'original equipment quality'. The reason for using manufacturers' parts or 'original equipment quality' parts was quite simple; there were other parts on the market that were not of a reasonable quality, not necessarily unsafe, but not value for money, even though they might be much cheaper than genuine parts.

Evans Halshaw Holdings plc

6.135. *Evans Halshaw Holdings plc (EH)* said that car dealerships were about 85 per cent of its business, its other interests being contract hire, fleet management and related computer software. The company had 15 franchises.

6.136. As far as parts were concerned, there was no actual restriction on EH not to sell *any* make of parts, but in practice there was no real benefit in doing so, because its purchasing power for other makes would not be large enough for EH to gain any benefit. Parts was an area where there was benefit for volume. Equally, EH's basic market stance was that it sold genuine products which were designed for the vehicle. However, there were some restrictions and in its view the worst aspect of parts was that the same genuine parts could be bought more cheaply from other sources than EH could buy them from certain manufacturers.

Halfords Ltd

6.137. *Halfords Ltd* said that it was the largest retailer of automotive parts and accessories in the United Kingdom with around 400 outlets spread throughout the country. It started in 1908 as a retailer of cycles, diversifying into the automotive business in the early part of the century and gradually expanding into a network of high street parts and accessories shops. It was now a subsidiary of The Boots Company PLC. Turnover of Halfords for the 12 months ending 31 March 1990 was £258 million, and turnover from its

autocentres for 1989 was approximately £130 million, of which sales of parts represented £30 million while servicing and maintenance operations accounted for £22 million. The central distribution point was at Redditch where some 2,000 lines were stocked.

6.138. Halfords went into service centres in 1985: before that it sold parts for DIY. There was a public perception of the way cars were serviced which led Halfords to believe that there was dissatisfaction with the system in that the car owner was unclear when he took the vehicle in what the bill would be. The car would disappear and appear later with a bill. Halfords' policy was to give customers a fixed price quotation for every repair or service before any work was undertaken, and to notify a customer of any additional work and agree it before it was carried out. In addition Halfords' charges for many parts were significantly lower than those charged by dealers.

6.139. The United Kingdom market for vehicle servicing was in the midst of a period of important change as a result of major technological improvements in car manufacture over the last five years. In the late 1970s and early 1980s it was usual for cars to be serviced at least twice a year or every 6,000 miles. In 1990 many cars needed servicing only once a year or every 9,000 to 12,000 miles. Car servicing was thus a declining market.

6.140. An important feature of new car design over the last five years had been the increasing use of sealed electronic components and complex computerised car management systems. One consequence of this had been a decline in DIY. Many repair and maintenance functions now required access codes. Without these codes it was in many cases impossible to perform remedial or maintenance work on a car. It was also necessary to have recommended service schedules and technical services bulletins. While the recommended service schedules were readily available, the technical service bulletins which discussed specific problems and faults associated with particular models (together with the fault codes) were not available outside the franchised dealer network. If this continued franchised dealers would gradually achieve an even greater unfair competitive advantage over the independents than they already enjoyed.

6.141. In Halfords' view it was clear that manufacturers' warranties were designed to ensure that all warranty work was done by franchised dealers, using manufacturers' own parts. It said that it recognised that the car manufacturer that was warranting the reliability and mechanical performance of a car must be entitled to exercise some measure of control over the sorts of maintenance operations to which the car was subjected during the warranty period, and over the quality of parts used to perform warranty work on the manufacturer's behalf. But it believed that the quality of the parts it used in its servicing, maintenance and repair operations was at least as high as the OE used by the manufacturer of the vehicle; in many cases the parts used by Halfords were technically identical to the original parts specified by the manufacturer apart from the branding. Nevertheless, Halfords said that in its experience some car manufacturers and franchised dealers took a different view and refused to carry out warranty work where a vehicle had been serviced outside the dealer network or where non-original parts had been used, or, if they did carry out such work, they did so only under considerable duress.

6.142. Halfords said that such action placed it at a considerable commercial disadvantage as it prevented it from competing effectively with the franchised dealer network and denied it the opportunity of meeting a clear customer demand for an alternative to the franchised dealer. Halfords said that it offered a comparable and in some cases higher quality of service than that provided by some franchised dealers, often at a significantly lower price. To deny the customer the opportunity of purchasing an identical product at a lower price was self-evidently against the public interest.

6.143. Halfords urged that car manufacturers should not be permitted to insist that only OE parts were used for servicing during the warranty period or for the performance of warranty work on the manufacturers' behalf. Halfords pointed out that it was a condition of the EC Block Exemption (Regulation 123/85) that the dealer must be free to supply non-OE parts provided that they matched the quality of the contract goods. Nevertheless, Halfords said that it would be prepared to use only OE parts for servicing during the warranty period and the performance of warranty work on the manufacturers' behalf, provided that it was able to source such parts at wholesale prices reflecting the very substantial volumes in which it would be buying. In short, Halfords said that in such circumstances it should be made unlawful for manufacturers to offer volume discounts to their franchised dealers that were not also made available to other resellers buying in similar volumes.

Lex Service PLC

6.144. *Lex Retail Group (Lex)* said that it was a wholly-owned subsidiary of *Lex Services plc*, but it had an arm's length relationship with Volvo Concessionaires, its sister company. The Retail Group operated 61 dealerships in the United Kingdom, covering 15 separate franchises. In total it sold about 40,000 new cars and 20,000 used cars a year.

6.145. Lex in its capacity as a franchised dealer said that it was not constrained at all in sourcing its spare parts except in so far as parts supplied under a manufacturer's warranty were concerned, but so long as pricing, quality and delivery levels remained satisfactory, Lex would be unlikely to consider other sources. Not only was the manufacturer under the greatest obligation to maintain the highest quality, but he also had to stock and supply at very short notice his entire range of parts for all his products going back a number of years. This kept cars on the road and allowed dealers themselves to keep very low inventory levels.

6.146. As far as Lex knew, none of its suppliers had a bonus scheme which linked car and parts sales. Lex would strongly oppose such a linkage. Lex stressed that it was not constrained from buying parts where it liked, but it chose not to do so, even though about two-thirds of its service work was done outside warranty.

6.147. If a car was brought in within the warranty period with a failed component, provided it was a part which could not reasonably be affected by a non-franchised dealer service, there would be no problem in warranty replacement. It was the dealer's decision. There was no obligation to report that the car had been serviced elsewhere. Lex said that the manufacturer had every right to insist that warranty work for which it was paying should be carried out as it wished. Servicing was a different issue. The customer paid for his servicing and was free to have it done where he pleased. In the franchised system if a bad service resulted in the failure of a major component, the customer would probably not have to pay: the cost would be sorted out between the manufacturer and the dealer.

Perry Group PLC

6.148. The *Perry Group PLC (Perry)* said that it held 27 dealerships with 74 franchises covering ten manufacturers, the main one being Ford. Asked about parts, it said that the group tended to stick to manufacturers' recommended parts mainly because of the problems that could arise by not making a declaration to the customer if other parts were used. It was desirable to make this declaration, but it was very difficult, given the number of people employed, to make certain that the part was identified and the customer told. It was simply easier to sell only manufacturers' parts.

6.149. In addition the system for purchasing manufacturers' parts was simple, in most cases via computer link, whereas to buy other parts needed purchasing skills which the average dealer did not have. The freedom was there to use other parts if it was sensible to do so and could be organised efficiently. Asked whether this would apply equally to older cars outside the warranty period, Perry replied that main dealers across the country actually serviced very few cars that were over three years old. Consequently the question hardly arose, but from experience of the non-franchised sector it relied heavily on equivalent parts, because there was a significant price advantage to the consumer.

6.150. Each year the manufacturer set the dealer a target for parts and there was a cash bonus if that target was achieved. Perry had a parts centre from which about 36 vans delivered Ford parts, including to other Ford dealers. However, if Ford were to change the bonus on parts (as it was entitled to do) and lessen the profits from distributing Ford parts, then it might pay to start distributing other parts as well.

6.151. On warranty work, Perry said that the majority of manufacturers would meet a claim under the warranty on a car irrespective of its service record-in fact in most cases the manufacturer had no means of checking. Certain of them required information to be fed back to their central computer, but the majority did not. Many dealers did not keep records of cars that might be transient.

6.152. Undoubtedly the spread of operations like Kwik-Fit would affect the franchised dealer. A large chain had considerable buying power, and could offer a fixed price service, which the dealer body, which was very fragmented, could not. Also it was not easy to offer a quick service for simple replaceable items at the same time as operating a normal service area. Most dealer premises did not lend themselves to it.

Consumers

Automobile Association

6.153. The *Automobile Association (AA)* said that it had 7.6 million members, some of whom were members because they had bought a particular car for which the manufacturer had arranged to include AA membership in the purchase price. The Association offered a wide range of services including breakdown service and legal and technical advice services.

6.154. The AA supported the franchise system on the basis that the franchised dealer was in direct touch with the manufacturer and received all the appropriate technical data, together with the back-up of specialist training, spare parts stocks and diagnostic equipment. Where the franchised dealer was not so satisfactory was in breakdown and recovery services. Many of them did not have breakdown or recovery vehicles, and many were not open in the evening or over the weekend. The AA tended to use specially approved breakdown agents working more flexible hours, with mobile communications and specialist recovery vehicles.

6.155. It did not see the supply of parts as a major problem. With the exception of some specialised parts the AA considered that motorists had a wide choice of supply for car spares and parts. There were the motor factors, not tied to the car manufacturers, which supplied reputable and acceptable parts. While manufacturers' approved parts needed to be obtained from a franchised dealer during the life of a new car warranty, no such restriction existed once the warranty had expired. However, the AA considered that there was an argument for car manufacturers permitting their franchised dealers to use parts obtained from other sources for warranty work, provided that they were of comparable quality.

6.156. In relation to repair and servicing, the AA said that, in the opinion of its Chief Engineer, standards of service varied little between franchised and non-franchised garages, including fast-fit establishments. It also said, however, that car manufacturers and importers were generally reluctant to provide details of repair methods and complex vehicle specifications outside their franchised networks. This reluctance tended to act against the interests of the consumer in so far as non-franchised repairers, such as fast-fit establishments, were hampered in their activities by the lack of such information. The small garage was certainly under threat but all-makes servicing was still feasible for a reasonably equipped garage. All existing cars with ECUs could be interrogated by hand-held diagnostic equipment which was specific to the make of the car. One problem was that the diagnostic port connectors were physically different from car to car, as were the software protocols by which the diagnostic tool communicated with the ECU. By 1993 all petrol-driven cars would require catalytic converters to meet the new lower emission levels and this implied ECUs of some kind for even the smallest and cheapest cars.

6.157. In the United States freedom of information legislation ensured that the required data was available to any third party. This was not the case in Europe where manufacturers restricted most of their technical information to their franchised networks. However, that attitude was changing and in any case did not seem to be a problem for the AA which required diagnostic as distinct from servicing information. There were a number of independent manufacturers of diagnostic instruments with comprehensive measurement, diagnostic analysis and display.

Association of Car Fleet Operators Ltd

6.158. The *Association of Car Fleet Operators Ltd (ACFO)* said that it was the largest body representing companies and businesses which operated fleets of cars and light vans in the United Kingdom. It had approximately 475 members, who collectively operated in excess of 425,000 vehicles.

6.159. Asked about the servicing and repair arrangements made by its members, ACFO said that the overwhelming majority of fleet operators stipulated that their drivers used a franchised dealer, both to protect their investment and to ensure that any warranty claims were dealt with quickly and efficiently. After the warranty period many maintained that requirement, but some did allow alternative service locations to be used in some cases for reasons of cost or convenience.

6.160. Servicing was becoming a very capital-intensive business because of increasing technological sophistication (partly due to environmental requirements), and different marques required different tuning

and diagnostic equipment. There were significant regional differences in labour rates, and also different local attitudes to parts discounts. However, these differences probably reflected to some degree the amount of work available to the garages in different areas.

Consumers' Association

6.161. The *Consumers' Association (CA)*, which was financed entirely through subscriptions by just under 1 million members, said that it had been able to compile substantial amounts of evidence on the availability of spare parts based on its regular car reliability surveys. CA said that, in general, the results showed that nearly all the cars tested by its members, even volume models, had at some time had problems with the availability of spare parts. As might be expected, the problems were fewest with British-made cars, and with the more popular makes, but even here there were surprising exceptions. CA concluded from this that the franchising system had been far from successful in its goal of ensuring the ready availability of spare parts for all common models of cars.

6.162. CA also said that it was currently in the process of carrying out a major survey for the EC Commission of the EC car spare parts market. This would not be completed for some months but a number of points had already come to its attention, which suggested that competition in the spare parts market was nothing like as open as it could be. In particular:

- (a) Franchised dealers tended to quote very similar prices for manufacturers' parts, so limiting the scope for shopping around.
- (b) Many of the concerns about the safety of non-manufacturers' spare parts were exaggerated. Indeed, some parts manufacturers made both OE for car manufacturers and also replacement parts sold under other names.
- (c) Warranty conditions were tending to reduce the scope for competition in this area, even in the United Kingdom with its relatively liberal regime. Minor spare parts such as oil filters could threaten warranty conditions if they were supplied by an independent firm. With many cars being sold on extended warranties of two or three years, the extent of this constraint on competition was becoming ever greater.
- (d) There appeared to be a practice on the part of car manufacturers to put pressure on franchised dealers to use 'original' crash repair and body panels which were generally much more expensive than the alternatives. This appeared to be the case even where franchised dealers were not expressly required to buy car parts exclusively from manufacturers and importers, following the 1982 Restriction on Agreements (Manufacturers and Importers of Motorcars) Order, which limited solely to warranty work or the pursuance of a recall campaign any stipulations that 'genuine' parts be used.

Members of the public

6.163. Fifteen *members of the public* wrote to us. All complained that manufacturers and suppliers were charging excessive prices for their own-brand spare parts, sometimes three or four times the price of identical parts available from motor factors. One individual added that parts for Japanese cars could be as much as five times the cost of the equivalent parts from a British manufacturer. He suggested that car buyers should be warned of the high prices of parts for certain makes of car before they made their purchase. One individual objected to having to buy a complete part when he only needed a small section of it. Another objected to being tied to buying manufacturers' expensive parts for the warranty period of a vehicle when he knew he could buy identical parts elsewhere for half the price. Other individual complaints were that there was no apparent logic to the pricing of parts and no redress for the ordinary motorist and that dealers sometimes refused to give out parts index numbers, making it difficult for those wishing to buy from other sources which were cheaper.