

# Block Exemption for Cars Quick Facts



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## Relevant or Related Legislation:

EC Competition Law (Articles 84 and 85) Enforcement Regulations 2001;

EC Regulation 1400/2002;

Regulation 17 of the 1998 Competition Act

## Key Facts:

- The new exemption will increase competition in the domestic and continental car market, including car servicing and repairs, which will give consumers more choice and better value for money.
- The new EC Cars Block Exemption should help reduce UK prices by increasing competition and providing greater freedom to import cars from other member states. Giving consumers more choice and better value for money.
- Old Regime expired on 30 September 2002 (but see Q2 below)
- The Competition Commission found the operation of the selective and exclusive distribution system permitted by the European Union's Car Block Exemption rules to be the root cause of the increased cost of new cars in the UK, and made a number of recommendations for fundamental changes to this system.

## Frequently Asked Questions (FAQs)

Q1. What is the Cars Block Exemption?

Q2. When do the new rules apply?

Q3. What effect will the new block exemption have on the car selling market?

Q4. What effect will the new block exemption have on the car repair and servicing market?

Q5. What will be the effect on car pricing in the UK?

Q6. Who do I complain to if I think the Block Exemption is being exceeded?

Q7. Where can I get further information on cars block exemption?

### Q1. What is the Cars Block Exemption?

The EC cars block exemption is the European Commission Regulation No. 1400/2002 (formerly Regulation No 1475/95), which exempts from EC competition rules arrangements in the EU for the distribution of new cars and their subsequent servicing.

The block exemption allows car manufacturers to create networks of selective and exclusive dealerships.

The system of selective and exclusive distribution was strongly criticised by the UK Competition Commission in its April 2000 report on the market for new cars in the UK.

In November 2000, the European Commission published a review of the workings of the block exemption, which concluded that the system had failed to meet important objectives set for it when it was established in 1995. In particular, the review concluded that:

- buyers were still facing difficulties when they tried to purchase new vehicles from another Member State;
- the "natural link" between sales and after-sales service seemed no longer to exist;
- the objective of increasing the commercial independence of dealers had been achieved only to a limited extent; and
- independent repairers were being denied access to technical information.

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## Q2. When do the new rules apply?

European Commission rules (cars block exemption) became law on 1 October 2002. However, the majority of the provisions did not come fully into effect until October 2003 following the one year transition period.

The ban on "location clauses", which limit the geographical scope of dealer operations, has raised major industry concerns. To reflect this, this element will come into effect two years later than the rest of the reforms - on 1 October 2005.

From October 2005, dealers will be free to set up secondary sales outlets in other areas of the EU, as well as their own countries. This should significantly strengthen competition between dealers across the Single Market and help to ensure that consumers get a fair deal.

## Q3. What effect will the new block exemption have on the car selling market?

An EC review of the old Block Exemption rules on the sale of new cars in the EU found that they were not working as intended. Buyers were still finding it difficult to buy cars in another Member State.

The new rules will mean that:

- dealers are able to market their services and reach customers in different areas or countries;
- dealers are able to sell more than one brand of car at the same site (multi-franchising) with fewer restrictions;
- internet retailers will find it easier to co-operate with dealers and with individual customers who wish to import cars themselves.

The provisions will increase competition in the domestic and continental car market, which will give consumers more choice and better value for money including a reduction in car prices.

## Q4. What effect will the new block exemption have on the car repair and servicing market?

These changes will mean more competition in the servicing and repair market leading to lower costs and higher standards for consumers.

The after-sales market will be opened up, with a change to the rules linking new car sales and servicing. Dealers will still have to ensure that customers' cars are serviced and repaired to manufacturer-approved standards, but they will no longer have to do it themselves; and, independent garages and roadside assistance organisations will have much greater access to technical information, including diagnostic equipment and software.

Dealers will be freer to determine how they run their businesses. The better the service they offer, the more they will be rewarded. Poor performers will find it harder to survive.

## Q5. What will be the effect on car pricing in the UK?

The Supply of New Cars Order 2000 was introduced following the Competition Commission (CC) monopoly inquiry into the supply of new cars. The CC found that private car buyers in the UK were paying about 10% too much for the average car, taking account of discounts, trade-ins and finance deals.

The CC found the operation of the selective and exclusive distribution system permitted by the European Union's Car Block Exemption rules to be the root cause of the increased cost of new cars in the UK, and made a number of recommendations for fundamental changes to this system.

The CC also made a number of recommendations for immediate action, which resulted in the introduction of the Order in September 2000. One of the main provisions



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of the Order requires suppliers to offer dealers who purchase volumes of cars outright equivalent discounts to those offered to fleet customers who purchase similar volumes. The intention of this provision is to close the price gap between cars offered to fleet customers and those offered through dealers to private buyers.

The new EC Cars Block Exemption should help reduce UK prices, or at least lead to a levelling out across Europe of pre-tax prices, by increasing competition and providing greater freedom to import cars from other member states. There is evidence that the process of levelling prices across the EU has been proceeding.

#### **Q6. Who do I complain to if I think the Block Exemption is being exceeded?**

The responsibility for enforcing UK competition law falls to the Office of Fair Trading (OFT). The Regulation is therefore directly enforced in the UK by the OFT under the new modernisation of enforcement of European Union Competition rules.

Responsibility for enforcing across borders remains with the European Commission. The Regulation places responsibility on the Commission to monitor its operation on a regular basis and to report in May 2008. The Commission will take the lead on UK cases which have a Community wide dimension. OFT assists the Commission as necessary.

In general, the Department for Business, Enterprise and Regulatory Reform (BERR) takes the lead in the UK on competition policy issues and on the development of new legislation including EC regulations such as the cars block exemption.

Neither BERR or the OFT can advise individuals on the merits of a specific EC case or make representations on their behalf but the OFT can provide advice on procedures for approaching the Commission.

#### **Q7. Where can I get further information on cars block exemption?**

The text of the new block exemption, explanatory brochure and other information can be found on the EC Cars block exemption web pages.

The Department published a press notice in 2002 which the Consumer and Competitions Minister, said "I very much welcome the European Commission's new regulations, which will mean more choice and fairer prices for consumers, and greater competition and innovation in the retail sector. By making the European single market work much better, they should bring UK prices closer to those in other EU countries."



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