COMPETITION LAW IN THE EUROPEAN COMMUNITIES

August, 2001

Volume 24, Issue 8

FRANKLIN PIERCE
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CONCORD, N. H.
SEP 04 2001

FAIRFORD PRESS

Publisher and Editor: Bryan Harris

Fairford Review : EU Reports : EU Services : Competition Law in the European Communities

58 Ashcroft Road, Cirencester GL7 1QX, UK
P O Box 323, Eliot ME 03903-0323, USA

www.fairfordpress.com

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August, 2001

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COMPETITION LAW IN THE EUROPEAN COMMUNITIES

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ISSN 0141-769X

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Car price differentials

From time to time the Commission carries out studies of car price differentials in the Member States; and it tends to draw the conclusion that, if the differentials are great, the rules on competition need to be more strongly enforced. While there is certainly some truth in this, it is only part of the story. The Commission rightly defends parallel trading; but even the Competition Commissioner is speaking only of "the *possible* obstacles to parallel trade" in this context. He speaks of "the current preparation of the future legal framework for car distribution", but does not directly link the questions of differentials and of distribution.

In its most recent report on car prices, the Commission has found that price differentials for new cars across the European Union are still substantial. The situation on 1 May 2001 shows that, despite the recent depreciation of the £ against the euro, prices in the United Kingdom are still much higher than in the euro-zone. Greece, which joined the euro-zone on 2 January 2001, as well as Finland, Spain, the Netherlands and Denmark, a non-member of the Euro-zone, are the markets where car prices before tax are generally the lowest. The analysis of the situation among the members of the euro zone reveals that Germany and, for a number of models, Austria, are the most expensive markets. In Germany, a total of 46 models out of the 81 covered by the report are more than 20% more expensive than in at least one other euro zone market (including Greece). The PSA group, the Fiat group, the VW group (Volkswagen and Seat), Ford, Opel and a number of Japanese manufacturers are pursuing a high price market strategy in Germany. On the other hand, certain German manufacturers (Audi, BMW and DaimlerChrysler) and Volvo are in general limiting price differentials within the euro zone to 15%.

The generally low pre-tax prices in Finland, Denmark and Greece are largely due to manufacturers' pricing policies, since because of high taxes on car purchase in those countries, most manufacturers fix pre-tax list prices at a low level, arguing that this is necessary to make the after-tax prices affordable. In other countries such as Germany, where no such taxes are charged, prices before tax are therefore much higher. In the United Kingdom, car prices include the additional cost of right-hand drive, and are affected by the high value of the £. All of these aspects have to be taken into account when analysing the causes for high price differentials. In other words, there are several factors, over and above pure competitiveness, which lead to material differences in car prices. Just as oil prices depend on a variety of factors, of which competitiveness is only one, so car price differentials are likely to be removed only if currencies achieve equilibrium, economies are integrated and – lefthand drive is the norm.