PRICE DIFFERENTIALS (CARS): COMMISSION REPORT

Subject: Price differentials

Industry: Cars

Source: Commission Statement IP/02/305, dated 25 February 2002 (and see endnote)

(Note. In seeking to reduce the price differentials for cars within the European Union, the Commission pins its faith on two factors. The first is the introduction of the new block exemption regulation for distribution agreements for motor vehicles. The second is the imposition of heavy fines, as in the Volkswagen and other cases, for creating obstacles to parallel trade between Member States and for resale price fixing. Whether the first of these will have an effect on price differentials remains to be seen: it is likely to have some salutary results, but not necessarily in this area. As to the second factor, a great deal depends on how much is at stake: whether in fact the severity of the fines can outweigh the benefits to certain manufacturers of maintaining the differentials. Having all the car prices in the "euro-zone" expressed in the same currency may also be a marginal deterrent to differential pricing.)

In its latest report on car prices, the Commission has found that price differentials for new cars in the internal market are still substantial, despite the introduction of the euro. The situation on 1 November 2001 shows that price convergence has not taken place. Spain, Greece, Finland and Denmark, a non-member of the Euro zone, are the markets where pre-tax list prices for cars are generally the lowest. Prices in Germany, the biggest market, and Austria, are the highest. It is also apparent that prices in the United Kingdom are still much higher than in the euro zone. The Commission takes the view that its monitoring of price differentials confirms that there is significant room for improving market conditions in the motor vehicle sector. The reform proposals presented by the Commission on 5 February 2002 (and reported on page 42 of our February issue) are intended to speed up the completion of the Internal Market and to clear the way for consumers to benefit from greater competition and increased choice, while reinforcing quality and safety in vehicle repair.

The Commission's report on car prices portrays the situation in national car markets on 1st November 2001, that is, two months before retail prices started to be denominated in euros in the twelve Member States participating in the monetary union. Since most list prices were no longer denominated in national currency, it would appear that the introduction of the euro had been anticipated. Therefore, the report gives a first indication as to the extent to which pricing policies have been adapted in response to monetary integration. The price differentials mentioned in this press release are based on the manufacturers' recommended retail prices net of tax. The full report gives prices both before and

after tax. It compares prices for a total of 80 models, representing the best selling cars of 24 manufacturers.

Within the euro zone, Germany and, to a lesser extent, Austria, still remain the most expensive markets. In Germany, a total of 41 models are sold at the highest prices in the euro zone and 40 of these are 20% more expensive than in at least one other euro zone market. In fact, differentials of more than 20% appear as well for 31 models in Austria. The cheapest markets in the euro zone are Spain, Greece and Finland, with differentials below 20% for more than 90% of the models surveyed.

As in the previous survey, the Commission has found that in the first four segments (A to D), where the high number of models from different competitors would normally lead one to suppose that competition should be strong, the average price differential within the euro zone is much higher (well above 20%) than in segments E, F and G. In absolute values, the price differential on a car in the middle of the segment spectrum (Fiat Marea, segment D) may, in certain cases, reach €4,488 within the euro zone and as much as €7,545 within the European Union as a whole.

As regards the United Kingdom, in general, new car prices remained stable. For 9 models, prices have diminished by more than 5% as compared with the situation on 1st May 2001, while for 7 models there are increases above 5%. This market continues to be the most expensive for 52 of the models examined. Since the prices in the United Kingdom are still much higher than elsewhere, many British consumers continue to try to buy their cars from Continental dealers; but the Commission still receives complaints from British consumers who encounter obstacles when purchasing a car in another Member State. Many of these complaints relate to high right-hand drive supplements and long delivery times. The Commission has re-affirmed its commitment to investigate restrictive practices by car manufacturers when they deter citizens of the European Union from buying a car in another Member State and has in fact fined Volkswagen (twice), Opel and Mercedes for placing obstacles in the way of parallel trade and for resale price fixing.

Overall, price convergence within different car segments has not greatly varied since the last report. Examples of the most popular car models show that price differentials have significantly (that is, more than 5%) decreased only for three models and increased for one model. The reduction in price differentials for the Opel Astra, as compared to the previous survey, is due to a sharp price reduction on most European markets for this model. The reduction in price differentials for the Volkswagen Polo is due to the launching of a new Polo model, for which prices have been submitted only for the eight countries where this new model had been introduced. A more general observation should be made in respect to the pricing behaviour in the different segments: Germany and Austria are the most expensive markets for nearly all models in segments A to C, while in segment D, this is true for only half of the models, and in the other segments, these countries rank as the most expensive market only occasionally.

Across the euro zone, General Motors (Opel-Vauxhall, Saab), the Fiat group (Fiat, Lancia, Alfa Romeo), PSA Group (Peugeot, Citroën) and the Volkswagen group (Audi, Seat, Volkswagen) are the groups which have the widest price differences. In particular, the PSA group, the Fiat group, the VW group (Volkswagen and Seat), Ford, Opel and a number of Japanese manufacturers pursue a high price market strategy in Germany. On the other hand, in general, certain German manufacturers (such as BMW and DaimlerChrysler) and, to a lesser extent, Ford (Ford, Volvo, Land Rover) limit price differentials within the euro zone to 15% or less.

The generally low pre-tax prices in Finland, Denmark and Greece are largely due to manufacturers' pricing policies. In response to high taxes on car purchase in those Member States, most manufacturers fix pre-tax list prices at a low level, alleging that this is necessary to make the after-tax prices affordable. However, in other Member states where no such taxes are charged, prices before tax may be roughly similar, as in Spain, or much higher, as in Germany. In the United Kingdom, car prices include the additional cost of UK specification, in particular right-hand drive, and are affected by the high value of the British Pound. All of these aspects have to be taken into account when analysing the causes for high price differentials. The Commission has found that for British and Irish consumers buying a car in another Member State, the supplement for right-hand drive specification is generally the lowest for models from the Japanese manufacturers, and the highest for models produced by the Volkswagen group (VW, Audi and Seat).

The methodology used is the same as that employed in previous reports: a total of 17 (previously 15) European and 7 Japanese manufacturers supplied the Commission with the recommended retail prices, as of 1 November 2001, of 80 of their best-selling models. The reference price for the calculation of differentials for any model is that of the cheapest country within the euro zone. Prices are adjusted for differences in standard equipment, and are given in local currency and in euros, both before and after tax. Prices for major options and for right-hand drive specification are also supplied, together with other information. For some models, further options and variations in standard equipment may exist on certain national markets. Actual retail prices may differ from recommended list prices, as dealers must be free to set their own prices and to offer additional financial benefits to customers, depending on the market.

The report itself and other useful information may be found on the European Union's Website:
Press release, electronic version of the report and manufacturers' price tables*:
http://europa.eu.int/comm/competition/car_sector/
Commission Offices where hard copies of the report are available:
http://europa.eu.int/comm/offices.htm
Information centres for car buyers (telephone "hotlines"):
http://europa.eu.int/comm/competition/car_sector/ ■

*[*As we go to press, we learn that the draft regulation is now on this site as well.]*