PRICE DIFFERENTIALS (MOTOR VEHICLES): COMMISSION REPORT

Subject: Price differentials

Industry: Motor vehicles

Source: Commission Statement IP/02/1109, dated 22 July 2002

(Note. The Commission's Statement contains some good factual information about car price differentials and some weaknesses in its explanation of the causes. The Commission is clearly disappointed about the negligible effect of monetary union on the differences in prices among the Member States forming the "Euro zone"; and it is in the curious position of advocating greater approximation of car prices, while at the same time urging consumers to take advantage of price differentials. The Commission also sets great store by the new block exemption regulation on motor vehicle distribution, though whether that will have a substantial effect on price differentials is debatable.)

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 as of 1 May 2002 shows that no significant price convergence has yet taken place. Spain, Greece, Finland and Denmark (which is outside the Euro zone), are the markets where car prices before tax are generally the lowest. Prices in Germany, the biggest market, and Austria, are the highest within the Euro zone. The survey shows no discernible pattern of price approximation between the cheapest and the most expensive national markets, that is, price increases in the former or price decreases in the latter. According to the Commission, its monitoring of price differentials and other indications have been regularly confirming that there is significant room for improving the functioning of the internal market in the motor vehicle sector. The Commission considers that the new rules on motor vehicle distribution will create the right conditions for competition in car sales and servicing, making the internal market work to the advantage of European consumers and economic operators alike.

This report on car prices portrays the situation on national car markets four months after retail prices started to be denominated in Euros in the twelve Member States participating in the monetary union. Therefore, the report gives an indication as to whether pricing policies have been adapted in response to monetary integration and of the extent to which competition forces are instrumental in integrating markets. For the moment, enhanced price comparability due to the Euro has not led to greater price convergence.

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 81 models, representing the best selling cars of 26 manufacturers. The price levels give some idea of the potential savings which consumers may obtain by exploiting price differences in

the European Union. The new rules governing car distribution should simplify these purchases, whether made directly by end-consumers, or through an intermediary who buys on their behalf. The Commission has re-affirmed its commitment to investigate restrictive practices directly or indirectly impeding EU citizens from buying a car in another Member State. (Since 1998, the Commission has imposed fines on Volkswagen (twice), Opel and Mercedes for obstacles to parallel trade between Member States or resale price fixing.) As regards the United Kingdom, it should be noted that this market continues to be the most expensive for more than half 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 cars from continental dealers. The Commission often receives complaints from British consumers who encounter obstacles when purchasing a car in another Member State, in particular, concerning long delivery times or high right-hand drive supplements.

Price differences for a selection of best-selling cars (expressed as percentages of prices in Euro before tax, comparing the most expensive with the cheapest Euro zone market) on 1st May 2002 were as follows:

	1/5/2002	1/11/2001	1/5/2001
Opel Corsa	18.1%	36.9%	37.4%
Ford Fiesta	n.a	16.4%	16.5%
Renault Clio	19.5%	26.4%	31.3%
Peugeot 106	24.4%	20.3%	23.5%
VW Polo	22.6%	14.7%	28.0%

A and B:	1/5/2002	1/11/2001	1/5/2001
VW Golf	30.5%	34.5%	33.1%
Opel Astra	21.4%	32.2%	51.6%
Ford Focus	24.4%	21.0%	18.6%
Renault Mégane	26.5%	22.9%	25.8%
Peugeot 307	27.2%	29.6%	24.2%

D, E and F:	1/5/2002	1/11/2001	1/5/2001
BMW 318I	11.2%	11.6%	13.4%
Audi A 4	11.9%	13.5%	13.7%
Ford Mondeo	21.5%	20.5%	22.2%
Opel Vectra	28%	41%	48.5%
VW Passat	27.3%	23.1%	22.3%

Overall, price convergence within different car segments has not greatly varied since the last report. The above examples of the most popular car models show that price differentials have increased for six models and decreased for eight models. 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.

Across the Euro zone, General Motors (Opel-Vauxhall, Saab), despite some recent price alignments on the Opel brand, the Fiat group (Fiat, Lancia, Alfa Romeo), Honda and Suzuki, are the groups which have the widest price differences. 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 and, to a lesser extent, a 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 either 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 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 18 (previously 17) European and 8 (previously 7) Japanese manufacturers supplied the Commission with the recommended retail prices, as of 1 May 2002, of 81 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 Euro and local currency, 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. It should be noted that 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. ■

Further Information on Car Price Differentials

The Commission's press release, the condensed electronic version of the report and the manufacturers' price tables may be found on:

http://europa.eu.int/comm/competition/car_sector/

This web site also gives information relevant to the next article in this issue.