

Business Environment



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Short Description

BUSINESS ENVIRONMENT

case study

Description

Case 4 : The end of the block exemption

As we have seen in the chapter, governments frequently use laws and regulations to promote competition within the marketplace in the belief that this has significant benefits for the consumer and for the economy generally. Such interventions occur not only at national level, but also in situations where governments work together to provide mutual benefits, as in the European Union's attempts to set up a 'Single Market' across the member states of the EU. While few would deny that competitive markets have many benefits, the search for increased competition at national level and beyond can sometimes be restrained by the political realities of the situation, a point underlined by a previous decision of the EU authorities to allow a block exemption from the normal rules of competition in the EU car market. Under this system, motor manufacturers operating within the EU were permitted to create networks of selective and exclusive dealerships and to engage in certain

other activities normally outlawed under the competition provisions of the single market. It was argued that the system of selective and exclusive distribution (SED) benefited consumers by providing them with a cradle-to-grave service, alongside what was said to be a highly competitive supply situation within the heavily branded global car market.

Introduced in 1995, and extended until the end of September 2002, the block exemption was highly criticised for its impact on the operation of the car market in Europe. Following a critical report by the UK competition authorities in April 2000, the EU published a review (in November 2000) of the workings of the existing arrangement for distributing and servicing cars, highlighting its adverse consequences for both consumers and retailers and signalling the need for change. Despite intensive lobbying by the major car manufacturers, and by some national governments, to maintain the current rules largely intact, the European Commission announced its intention of replacing the block exemption regulation when it expired in September, subject of course to consultation with interested parties.

In essence the Commission's proposals aimed to give dealers far more independence from suppliers by allowing them to solicit for business anywhere in the EU and to open showrooms wherever they want; they would also be able to sell cars supplied by different manufacturers under the same roof. The plan also sought to open up the aftersales market by breaking the tie which existed between sales and servicing. The proposal was that independent repairers would in future be able to get greater access to the necessary spare parts and technology, thereby encouraging new entrants to join the market with reduced initial investment costs. While these proposals were broadly welcomed by groups representing consumers (e.g. the Consumer Association in the UK), some observers felt that the planned reforms did not go far enough to weaken the power of the suppliers over the market (see e.g. the editorial in the Financial Times, 11 January 2002).

For instance it appeared to be the case that while manufacturers would be able to supply cars to supermarkets and other new retailers, they would not be required by law to do so, suggesting that a market free-for-all was highly unlikely to emerge in the foreseeable future. Equally the Commission's plans appeared to do little to protect dealers from threats to terminate their franchises should there be a dispute with the supplier. In the event the old block exemption scheme expired at the end of September 2002 and the new rules began the next day. However, the majority of the provisions under the EC rules did not come into effect until the following October (2003) and the ban on 'location clauses' – which limit the geographical scope of dealer operations – only came into effect two years later. Since October 2005 dealers have been free to set up secondary sales outlets in other areas of the EU, as well as their own countries. This is expected to strengthen competition between

dealers across the Single Market to the advantage of consumers (e.g. greater choice and reduced prices).

Case study questions

- 1. Can you suggest any reasons why the European Commission was willing to grant the block exemption in the first place, given that it ran counter to its proposals for a Single Market?**
- 2. Why might the new reforms make cars cheaper for European consumers?**

Details

- 1. Case study solved answers**
- 2. pdf/word**
- 3. Fully Solved with answers**