

# MARKET INQUIRY REPORT



## **Market Inquiry on Car Parts in Singapore**

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# MARKET INQUIRY ON CAR PARTS IN SINGAPORE

## EXECUTIVE SUMMARY

The Competition Commission of Singapore (“CCS”) has concluded its inquiry into the supply of car parts in Singapore. The inquiry aimed to better understand how the car parts market in Singapore works and the effects of market features on competition. Through the market inquiry:

The consultant whom CCS commissioned to conduct a consultancy study found several features of the markets that in its view were of most concern:

- a. Limitation on the number of authorised workshops (due to the authorisation of a single dealership by each car manufacturer) and the dealership and/or the car manufacturer in turn limit the authorisation to workshops linked to the relevant car dealership;
- b. Resale price maintenance and requirement by car manufacturers on the use of Original Equipment (“OE”) parts by authorised workshops, through the requirement that authorised workshops use only OE parts procured through the car manufacturer and the likelihood that the price of car parts on-sold to end-customers are set by the car manufacturers;
- c. Car manufacturers may be limiting the supply of diagnostic tools and information to independent workshops; and
- d. Warranty terms and conditions that require non-warranty related servicing and repairs to be carried out at authorised workshops in order for the car warranty to remain valid.

CCS found that importation and wholesale distribution of car parts are generally competitive. Car parts distributors and car workshops are generally able to obtain parts from a large number of suppliers (including stockists and retailers) located in Singapore and overseas. While supply is more limited for parts that are replaced infrequently or that belong to niche car models, this is likely to be due to the small number of buyers and sellers in the market.

CCS found that technical information, equipment and diagnostic tools are generally available. While car manufacturers and their authorised car dealers in Singapore generally do not supply certain essential inputs, such as technical information, equipment and diagnostic tools, to independent workshops, this has not significantly impacted competition for car servicing and repairs. This is because independent workshops are generally able to gain access to viable alternatives such as those supplied by third-party equipment suppliers.

CCS has identified concerns with regard to car dealers requiring customers to service or repair their cars exclusively at the respective dealers' authorised workshops, in order to ensure that the car warranty remains valid. These restrictions give car dealers the right to void car warranties or reject warranty claims if the car has been serviced and/or repaired at an independent workshop, regardless of whether the damage or defect to be claimed under the warranty is in fact caused by the independent workshop. The presence of such restrictions deters car owners from using independent workshops, thus restricting the ability of independent workshops to compete effectively with authorised workshops. This restriction on competition may in turn allow authorised workshops to charge customers higher prices for their car servicing, repair and parts.

To address this, CCS raised its concerns with the major car dealers and have worked with them to remove the warranty restrictions from their car warranties and related documents. All the major car dealers have agreed to make the relevant changes to the warranty terms identified by CCS. CCS expects all agreed changes to the warranty terms for existing warranties in force and new warranties to be retrospectively implemented by 31 December 2017. With the changes, these car dealers may only void car warranties or reject claims if they establish that the damage or defect to be claimed under the warranty is in fact caused by the independent workshops.

CCS encourages all other car dealers to review their warranty terms and practices to ensure compliance with the Competition Act.

## **BACKGROUND**

1. In November 2015, CCS exercised its powers under section 61A of the Competition Act to look into features of the markets relating to the supply of automotive parts in Singapore as it has reasonable grounds for suspecting that a feature or a combination of features of the markets prevent, restrict or distort of competition in the supply of automotive parts in Singapore. The market inquiry focused on the supply of parts for servicing, repair and customisation of cars, rather than the supply of parts for the assembly of new cars. The purpose of the market inquiry was to better understand how the car parts market works and the effects of market features on competition in Singapore.<sup>1</sup> The market inquiry was preceded by a consultancy study commissioned by the CCS.

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<sup>1</sup> Where a market inquiry reveals sufficient evidence that practices by market players have limited competition, CCS may, among other things, work with market players to address such competition concerns or commence an investigation and enforce the relevant prohibition under the Competition Act.

2. The market inquiry was conducted in three phases.

*Phase 1 – Consultancy Study*

3. In Phase 1, CCS commissioned HoustonKemp Pty. Ltd. (the “Consultant”) to assist CCS in understanding the aftermarket supply of and demand for car parts in Singapore, including the industry players involved in the supply chain, the types and nature of supply agreements, the characteristics of relevant markets and the possible impediments to competition in each market identified (“Consultancy Study”).

4. The Consultancy Study, which was conducted in January to May 2015, focused on six (6) car brands in Singapore, which together comprise around 60% of the car sales in Singapore, namely

- a. Toyota;
- b. Honda;
- c. Nissan;
- d. Mercedes Benz;
- e. Hyundai; and
- f. BMW.

5. The Consultant interviewed 50 industry participants to collect information on the supply chain of car parts in Singapore and identify aspects of the industry that are likely to impede competition.

6. In its report, the Consultant noted that car parts include:

- a. Original Equipment parts (“OE parts”) which are genuine parts that come in packaging marked with the car manufacturer’s brand and may be manufactured by the car manufacturer or purchased from car parts manufacturers for resale;
- b. Original Equipment Manufacturer parts (“OEM parts”) which are genuine parts that bear the brand of the OEM rather than the car manufacturers, and are sold directly by the parts manufacturer rather than through the car manufacturer;
- c. Generic parts which are produced by other manufacturers, which are essentially copies of the genuine parts and may be of similar or lower quality; and
- d. Reconditioned parts which are second-hand parts ‘harvested’ mostly from cars scrapped within Singapore.

7. The Consultant reviewed the market conditions at each level of the car parts supply chain, namely:

- a. the importation markets in which parts are sold for the purpose of resale 'as is';
- b. the wholesale distribution markets in which parts are sold for the purpose of being bundled with mechanic services and resold; and
- c. the installation markets in which end-customers purchase car parts in conjunction with mechanic services.

8. With respect to the importation and wholesale distribution markets, the Consultant found that many aspects of the industry support strong competition. In particular:

- a. The relative ease with which car parts can be imported into Singapore supports a wide range of suppliers to enter the relevant markets;
- b. Car parts distributors and car workshops are generally able to obtain parts from a large number of suppliers located in Singapore and overseas, and are able to switch between suppliers easily and at little cost; and
- c. Where difficulties in obtaining car parts were raised, these were in relation to seldom-required parts (such as parts that are replaced infrequently or that belong to niche car models). In these instances, the thinness of the market, i.e. small number of buyers and sellers in the market, rather than competition features are more likely to be relevant constraints.

9. With respect to installation markets, the Consultant analysed separate markets based on the main use of the car parts, namely for:

- a. Servicing and maintenance;
- b. Repairs; and
- c. Customisation.

10. The Consultant did not raise any concern with regard to car customisation markets, as it is unlikely that any workshop, or group of workshops, will have significant power in these markets.

11. However, the Consultant found several features of the market related to car servicing and maintenance, as well as repairs that in its view were of most concern. These market features mostly affect competition between the vertically integrated car dealers that

generally undertake car servicing and repair through their own workshops, and independent workshops which do not share common ownership with the authorised car dealers and generally service a wide range of car brands.

12. The market features highlighted as being of concern were as follows:

- a. Limitations on the number of authorised workshops<sup>2</sup>, due to a car manufacturer authorising a single dealership, and the dealership and/or the car manufacturer authorising only workshop(s) of the relevant car dealership;
- b. Resale price maintenance<sup>3</sup> arrangements which allow car manufacturers to set the price of car parts on-sold to end-customers, and car manufacturers requiring authorised workshops to use OE parts (some restricted to using OE parts procured through the car manufacturer);
- c. Car manufacturers may be limiting the supply of diagnostic tools and information (“Essential Inputs”) to independent workshops; and
- d. Warranty terms and conditions that require non-warranty related servicing and repairs to be carried out at authorised workshops in order for the car warranty to remain valid (“Warranty Restrictions”).

13. Details of the findings are set out in the Consultant’s report which is attached at Annex A.

#### *Phase 2 – Formal Inquiry*

14. In Phase 2 of the market inquiry, which started in November 2015, CCS conducted a formal inquiry with the exercise of powers under section 61A of the Competition Act (Cap. 50B) (the “Act”) to look further into the market feature of concern highlighted by the Consultant, ascertain the impact of the market feature and develop solutions as appropriate. In this regard, CCS gathered information from relevant stakeholders including government agencies, industry associations, car manufacturers, car dealers, car workshops, and parts distributors. Besides looking further into the market feature of concern highlighted by the Consultant, CCS also sought to confirm the Consultant’s finding that independent workshops are able to access car parts.

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<sup>2</sup> Workshops that are authorised by car manufacturers or car dealers to perform servicing, maintenance and repairs on the brand(s) of cars sold by them.

<sup>3</sup> Resale price maintenance are restrictions imposed by suppliers on the prices at which resellers can sell their products. Such arrangements may take the form of recommended selling prices. For example, the resale price maintenance may be imposed by car manufacturers on their authorised workshops.



15. The formal inquiry focused on 11 major authorised car dealers which distribute 19 car brands in Singapore, as set out in [Figure 1](#) below. Inclusive of parallel-imported cars, these 19 car brands made up more than 90% of the car population in Singapore in 2016.

**Figure 1: Major authorised car dealers within the focus of CCS’s formal inquiry**

S/N	Major authorised car dealer	Car brands
1.	Alpine Motors Pte. Ltd. (“Alpine”)	<ul style="list-style-type: none"> <li>• Chevrolet</li> </ul>
2.	Borneo Motors (S) Pte. Ltd. (“BMS”)	<ul style="list-style-type: none"> <li>• Lexus</li> <li>• Toyota</li> </ul>
3.	Cycle & Carriage Industries Pte. Ltd. (“C&C”)	<ul style="list-style-type: none"> <li>• Citroen</li> <li>• Kia</li> <li>• Mercedes-Benz</li> <li>• Mitsubishi</li> </ul>
4.	Eurokars Group of Companies (“Eurokars”)	<ul style="list-style-type: none"> <li>• Mazda</li> <li>• MINI</li> <li>• Porsche</li> <li>• Rolls-Royce</li> <li>• McLaren</li> </ul>
5.	Kah Motor Co. Sdn. Bhd. (“Kah”)	<ul style="list-style-type: none"> <li>• Honda</li> </ul>
6.	Komoco Motors Pte. Ltd. (“Komoco”)	<ul style="list-style-type: none"> <li>• Hyundai</li> </ul>
7.	Motor Image Enterprises Pte. Ltd. (“MIE”)	<ul style="list-style-type: none"> <li>• Subaru</li> </ul>
8.	Performance Motors Ltd. (“PML”)	<ul style="list-style-type: none"> <li>• BMW</li> </ul>
9.	Premium Automobiles Pte. Ltd. (“Premium”)	<ul style="list-style-type: none"> <li>• Audi</li> </ul>
10.	Tan Chong Motor Sales Pte. Ltd. (“TCMS”)	<ul style="list-style-type: none"> <li>• Nissan</li> </ul>
11.	Volkswagen Group Singapore Pte. Ltd. (“VGS”)	<ul style="list-style-type: none"> <li>• Volkswagen</li> </ul>

16. The findings in Phase 2 are set out in the following section. Based on these findings, CCS identified the Warranty Restrictions as likely to have the most significant adverse impact on competition between authorised and independent workshops.

*Phase 3 – Address competition concerns*

17. In Phase 3, which started in June 2016, CCS raised concerns with the nine (9) out of 11 major authorised car dealers and their car manufacturers, where necessary, in relation to their Warranty Restrictions and worked with them to amend their car dealers’ warranty terms and remove the Warranty Restrictions in order to address the competition concerns.

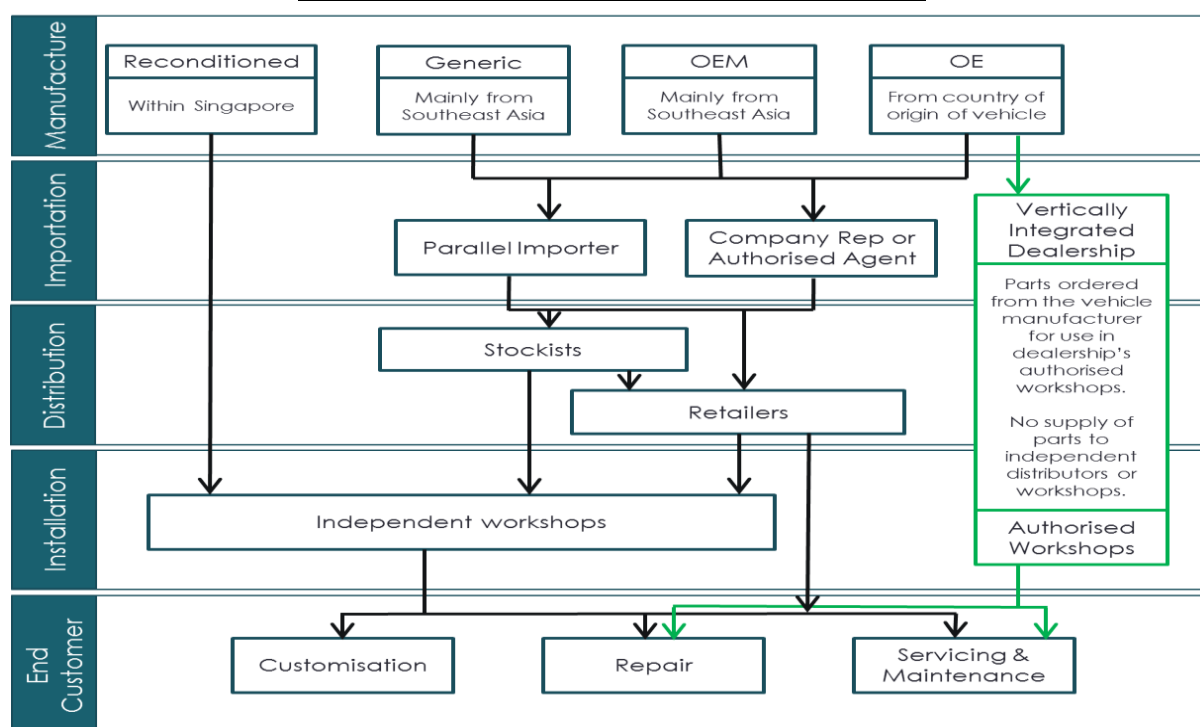
## KEY FINDINGS FROM THE MARKET INQUIRY

### Availability of car parts to independent workshops

18. As part of the Phase 1 Consultancy Study, the Consultant assessed whether the access to car parts was a concern to independent workshops in view of the car parts supply chain.

19. Figure 2 depicts an overview provided by the Consultant of the supply chain of car parts in Singapore.

**Figure 2: Supply Chain of Car Parts in Singapore**



Note: the "Manufacture" level of the supply chain shows the main types of car parts used in Singapore, instead of the different manufacturers of car parts, and the "End Customer" level of the supply chain shows the different general uses of car parts by end customers, instead of the different types of end customers.

20. At the importation level, car parts (OE parts, OEM parts and generic parts alike) are imported into Singapore through representatives or local subsidiaries of OEMs, agents authorised by local distributors or car workshops, or independent parallel importers. Car parts are then purchased and distributed by stockists and retailers in Singapore. Stockists are large distribution firms that usually operate from a warehouse rather than a shop-front. They sell to retailers as well as directly to workshops. Retailers, on the other hand, are smaller firms that are more likely to sell car parts through a shop-front. Retailers sell predominantly to workshops but also supply car owners directly. Independent workshops generally service a wide range of car brands and use a mix of OE, OEM, generic and reconditioned parts, and would source parts from stockists and retailers or use reconditioned parts for servicing and

repairs.

21. Given the multiple sources from which independent workshops are able to purchase OE, OEM, generic and second-hand parts, the Consultant concluded that the independent workshops had no difficulty in gaining access to car parts.

22. At the Phase 2 Formal Inquiry, CCS confirmed that car parts are indeed available to independent workshops. Based on the information gathered by the CCS,

- a. Car manufacturers and car dealers generally do not restrict the supply of OE parts for their car brands to distributors and independent workshops in Singapore.
- b. Car dealers are generally authorised by their respective car manufacturers to supply OE parts for the relevant car brands in Singapore. A number of car dealers are also authorised to wholesale OE parts.
- c. Most car dealers in practice do supply their OE parts to parts distributors and independent workshops.
- d. Independent workshops have no difficulty purchasing OE parts from authorised car dealers, or purchasing OE, OEM or generic parts from stockists or from suppliers overseas.

#### *Limitations on the number of authorised workshops*

23. In the Phase 1 Consultancy Study:

- a. The Consultant highlighted that car dealers generally own the workshops that are authorised by the car manufacturer or the dealers themselves to perform warranty repairs for their cars, and do not authorise any independent workshops. Warranty repairs refer to repairs or replacements to make good defective car parts covered under a warranty provided by the car manufacturer and/or car dealers.
- b. The Consultant considered that the restrictive policy of the car dealers of not authorising independent workshops, coupled with the requirement for cars under warranty to be serviced and repaired at authorised workshops, may have an impact on competition by distorting the incentives of car owners on where they may choose to service and repair their cars.

- c. In support of this view, the Consultant found that the proportion of owners using authorised workshops drops significantly after their warranty expires. This significant drop in retention rates of authorised workshop indicates that most customers would prefer to service and repair their cars at a lower cost at independent workshops if not for the Warranty Restrictions.

24. In Phase 2 Formal Inquiry,

- a. CCS verified, based on feedback from the major authorised car dealers and independent workshops, that most major authorised car dealers do not authorise any independent workshops for servicing and repair. The major authorised car dealers justified this with, amongst other reasons, the need to ensure that their cars are serviced using OE parts and with the necessary expertise.
- b. CCS also found that, while the car manufacturers may *recommend* the car dealer's workshop for non-warranty servicing and/or repairs, they generally do not *require* the car owner to use any particular workshop for such non-warranty servicing and/or repairs. Such restrictions, if any, are generally imposed by the authorised car dealers instead.

25. Considering the above, CCS is of the view that while the practice of car manufacturers and/or car dealers of not authorising any independent workshops limits independent workshops from providing warranty repairs, addressing car dealers' restrictions that induce or require car owners to service and repair their cars with authorised workshops, e.g. Warranty Restrictions, would more directly address the competition concerns on non-warranty related repairs and servicing.

26. Therefore, CCS considered this issue as part of its assessment of Warranty Restrictions instead.

*Resale price maintenance and requirement by car manufacturers on the use of OE parts*

27. In the Phase 1 Consultancy Study, the Consultant highlighted that the prices authorised workshops charge for car parts are set or influenced by the car manufacturer supplying the parts. Hence, the Consultant was of the view that the tie-up between the workshops and the car manufacturers, along with the degree of customer lock-in and the observed difference in prices between independent and authorised workshops, strongly suggests that vertical conduct is having an anti-competitive effect.

28. The Consultant also found that car manufacturers require authorised workshops to

use only OE parts, and raised the issue that this restriction may potentially foreclose demand from competing suppliers of OEM and generic parts, preventing them from achieving sufficient market share in Singapore to achieve economies of scale. An increased share of sales of these parts may also attract more importers, thus intensifying competition and putting downward pressure on parts prices. However, the Consultant found that the detriment to competition can be offset by the fact that some parts manufacturers use Singapore as a regional hub for distribution and re-export, thus increasing availability of parts in Singapore. Moreover, the proximity of regional suppliers to Singapore reduces the likelihood of competition concerns stemming from the inability of suppliers to achieve economies of scale.

29. In the Phase 2 Formal Inquiry, CCS found that:

- a. Car dealers are required to use only OE parts, with some exceptions where manufacturers have also specified the use of certain OEM parts. This is particularly the case for warranty repairs, as car manufacturers and car dealers are responsible for replacing defective parts with new OE parts.
- b. Some car dealers are also required to procure OE parts from their car manufacturer or authorised parts distributor.
- c. Car manufacturers may require car dealers to use OE parts, in order to ensure quality of servicing and repairs, and to protect brand equity.

30. CCS notes that even though such requirements restrict parts distributors from supplying parts to authorised workshops and hence may foreclose a part of the market for parts distributors, parts distributors are able to supply to car owners through independent workshops. To the extent that car owners are able to switch between authorised workshops and independent workshops downstream, such a restriction is not likely to significantly restrict competition at the wholesale distribution level. In the same way, to the extent that there are alternatives to OE parts, and there is sufficient competition between authorised workshops and independent workshops, any resale price maintenance by car manufacturers is also not likely to significantly restrict competition.

31. CCS did not receive any information to suggest that parts distributors in Singapore are harmed by the resale price maintenance or requirement by car manufacturers on the use of only OE parts by authorised workshops.

32. Therefore, as this market feature did not appear likely to significantly restrict competition, CCS did not inquire further into this issue.

### *Availability of Essential Inputs*

33. In the Phase 1 Consultancy Study, the Consultant highlighted that the independent workshops may not be able to access Essential Inputs which consequently limit their ability to perform servicing and repairs for cars. The Consultant was however unable to determine whether independent workshops could not access Essential Inputs due to a lack of economies of scale or explicit restrictions imposed by car manufacturers.

34. In the Phase 2 Formal Inquiry, CCS sought to understand from the car dealers and workshops the nature of these Essential Inputs, whether car manufacturers and car dealers supply these Essential Inputs to independent workshops, and whether independent workshops in practice have access to these Essential Inputs.

35. Through the Phase 2 Formal Inquiry, CCS understands that there are three categories of Essential Inputs:

- a. The first category is technical information. One example is repair manuals which are considered to be essential as they provide detailed specifications of the car model and step-by-step instructions on how to conduct all repair works including diagnostic and coding. Another example is information provided in the form of technical bulletins which are considered important because they provide a list of common faults, for each car model, as collected from all over the world.
- b. The second category is electronic and digital hardware and software. One example is diagnostic equipment and software upgrades, which are viewed as essential to diagnose problems with certain parts of the electronic system. In addition, programming codes are necessary to change some electronic parts such as control units and airbag systems. When changing electronic parts, the diagnostic equipment requires programming codes to complete the coding process.
- c. The third category is mechanical and engineering tools. These include special proprietary tools that are needed to dismantle, fit or repair certain parts, and are usually supplied by the car manufacturers to the authorised workshops.

36. According to industry feedback, CCS found that:

- a. Car dealers generally do not supply Essential Inputs to independent workshops due to contractual obligations to their car manufacturers or are genuinely unable to do so. For example, some equipment that are available to the

authorised workshops are only on lease from the car manufacturers, and hence authorised workshops are unable to provide or resell them to third parties such as the independent workshops.

- b. Car manufacturers may be unwilling to make their Essential Inputs available to independent workshops out of safety concerns, i.e., proper training is necessary for the use of the Essential Inputs.

37. Notwithstanding that car dealers and car manufacturers generally do not supply Essential Inputs to independent workshops, CCS received feedback from a number independent workshops (large and small) that they are able to obtain viable substitutes for Essential Inputs through third party suppliers based locally or overseas. As to whether these third party alternatives are as effective as their original counterparts, CCS received mixed feedback. According to some feedback, these third party alternatives are not as efficient or may not be fully compatible with certain car models, which can result in a longer time taken by independent workshops to diagnose or remedy the problem. However, other feedback suggests that some of these third party alternatives could be effective and compatible with multiple car brands/models, which suit independent workshops as they tend not to specialise in specific car brands. Taken together, this suggests that there are different third party alternatives of varying effectiveness and compatibility available in the market.

38. CCS also considered whether the ability to afford such equipment may be an issue for independent workshops. In this regard, CCS received feedback that some workshops that do not achieve sufficient economies of scale to justify the capital investments can and do share such tools and equipment with other workshops, or borrow them from specialised workshops. CCS also received feedback that these third party that substitutes for Essential Inputs are generally available only after six months of release of a new car model, though this does not significantly affect the independent workshops as their customers mostly have cars above one-year old.

39. Though CCS notes that it will remain more difficult for independent workshops to access Essential Inputs as compared to authorised workshops, the ability of independent workshops to access viable substitutes for Essential Inputs indicates that the impact on competition at this point is unlikely to be substantial. Therefore, CCS did not inquire further into this issue.

#### *Warranty Restrictions*

40. In the Phase 1 Consultancy Study, the Consultant found that car warranties provided by car manufacturers and/or their authorised dealers generally contain Warranty Restrictions. Thus, in order for customers' warranties to remain valid, they must have their

cars serviced and/or repaired by the vertically integrated dealerships' in-house authorised workshops. The Consultant highlighted that these Warranty Restrictions contribute to vertically integrated dealerships' likely significant market power, foreclose demand to competing independent workshops (putting them at a competitive disadvantage), and ultimately results in poorer outcomes (in the form of lesser choice and higher prices) for car owners, by increasing their cost and risk of choosing independent workshops. However, the Consultant was unable to determine whether the car manufacturer *or* the authorised dealer stipulated such Warranty Restrictions.

41. In the Phase 2 Formal Inquiry, CCS ascertained that local authorised car dealers and/or their corresponding car manufacturers have included terms and conditions that restrict a car owner's choice of where to conduct maintenance and repairs and/or what parts to use, in order to maintain the validity of the warranty. These warranty terms can be summarised into two (2) categories:

- a. Warranty is valid only if all maintenance and repairs are carried out by authorised workshops, including maintenance/repairs which are not covered by the warranty. (the "**Workshop Restriction**");
- b. Warranty is valid only if all maintenance and repairs are carried out using OE parts or other specified parts recommended by the car dealer (or car manufacturer) (the "**Parts Restriction**").

42. To the extent that independent workshops are able to access OE parts or other specified parts recommended by the car dealers or the manufacturer, Parts Restrictions are not likely to deter or discourage customers from servicing and repairing their cars with independent workshops instead of authorised workshops. Therefore, CCS assessed that the Workshop Restriction category of warranty terms is likely to have a greater effect on the ability of independent workshops to compete with authorised workshops, as compared to the Parts Restriction category, given the open supply of car parts in Singapore.

43. Thus, CCS's Phase 2 Formal Inquiry subsequently focused on Warranty Restrictions relating to Workshop Restriction.

44. These Warranty Restrictions include:

- a. A term that explicitly requires servicing or repairs to be done at the authorised workshop (e.g. "*All servicing and repairs must be done at the authorised workshop*"); or



- b. A term that allows warranty claim over a defect or malfunction to be rejected solely on the basis that any part of the car has been serviced or repaired by a third-party, such as independent workshops (e.g. *“The authorised workshop will not be liable for the warranty if the vehicle has been repaired by persons other than the authorised workshop”*).

45. CCS notes that Warranty Restrictions are effectively requirements by authorised car dealers for car owners to service or repair their cars exclusively at the respective dealers’ authorised workshops, in order to ensure that the car warranty remains valid. These restrictions give car dealers the right to void car warranties or reject warranty claims if the car has been serviced and/or repaired at an independent workshop, regardless of whether the damage or defect to be claimed under the warranty is in fact caused by the independent workshop. The presence of such restrictions deters car owners from using independent workshops, thus restricting the ability of independent workshops to compete effectively with authorised workshops. This restriction on competition may in turn allow authorised workshops to charge customers higher prices for their car servicing, repair and parts.

46. CCS also ascertained that nine (9) out of 11 major authorised car dealers covered under the formal inquiry, with the exception of VGS and Premium, have included Warranty Restrictions in their extended warranties. CCS did not find Warranty Restrictions in the warranties of the car manufacturers.

47. CCS understood from the responses by major authorised car dealers that they do not strictly enforce the Warranty Restrictions in order to preserve customer loyalty. Instead, warranty claims are only rejected if car dealers are able to prove that the defect/malfunction was caused by works carried out by independent workshops. According to the information provided by car dealers, they rarely voided warranties or rejected claims due to servicing or repairs carried out by independent workshops during the period from 2012 to 2015.

48. Nevertheless, CCS is concerned that the Warranty Restrictions likely have the effect of deterring car owners from servicing or repairing their cars at independent workshops due to the risk of the warranty being subsequently regarded as void or having their warranty claim rejected. The ‘lock-in’ effect of Warranty Restrictions on customers is evidenced by the high retention rate of cars under warranty for routine servicing and maintenance at authorised workshops, and the significant incidence of switching to independent workshops once the warranty expires.

49. CCS has found, based on information provided by the major car dealers, that the proportion of customers that service their cars at the authorised workshops falls distinctly upon the expiry of the car warranty, indicating that many customers do switch to servicing at other workshops once their car warranty expires. In particular, the proportion of customers

with new cars who service their cars at the authorised workshop can be as high as 90% for the first few years of the cars' lifespan, but the proportion drops to 40% or lower for older cars.

50. This is consistent with the feedback from independent workshops, which indicates that less than 1% of the customers of an independent workshop have cars under warranty, suggesting that customers send their cars to authorised workshops for servicing and repairs primarily to ensure that their warranty remains valid, despite the higher prices.

51. Market feedback obtained by the Consultant also confirmed that authorised workshops can charge two to three times as much as an independent workshop for comparable parts and servicing.

52. Among the independent workshops that CCS met, several raised concerns about Warranty Restrictions, particularly due to the general increase in the duration of warranties by car dealers from three to five years. In this regard, the CCS and the Consultant found that Toyota, Nissan and Hyundai cars distributed by BMS, TCMS and Komoco had a total of five (5) years of warranty. Other independent workshops indicated that they felt some effects, even though car owners may still engage them to carry out some types of repairs that may not be easily detected by the authorised workshops subsequently.

53. One of the independent workshops indicated that its policy is to turn away customers if their cars are still under warranty, in order to help its customers preserve their warranty. It also provided feedback that there would be material adverse effect on its business where the warranty duration is five years, as that would effectively mean that it would be foreclosed for half of the cars' usual ten-year (10-year) life.<sup>4</sup>

54. Another independent workshop indicated that it does not compete for the servicing or repair of cars that are under warranty. This suggests that some independent workshops may have already been effectively foreclosed from that segment of the market and may have adjusted their business to compete only for cars that are no longer under warranty.

55. CCS has assessed that competition between car dealers in the primary markets for the sale of cars may not provide sufficient competitive constraint in the aftermarkets for the servicing and repair of cars. First, consumers are generally not informed of Warranty Restrictions at the point of car purchase – Warranty Restrictions are usually only disclosed at

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<sup>4</sup> As a result of the COE system, anyone who wishes to register a new vehicle in Singapore is required by the Land Transport Authority to first obtain a Certificate of Entitlement ("COE") in order to own and use a vehicle in Singapore for a period of ten (10) years: see <https://www.lta.gov.sg/content/ltaweb/en/roads-and-motoring/owning-a-vehicle/vehicle-quota-system/certificate-of-entitlement-coe.html>.

the point when the cars are collected or even later. Second, it is difficult for car buyers to estimate the lifetime cost of servicing and repairs when buying a car, especially the replacement costs of parts arising from wear and tear, on top of uncertainty relating to costs associated with break-downs or accidents. Furthermore, car buyers also have little incentive to engage in whole-life costing, given that the costs of servicing and repairs form a relatively low proportion of the total cost of a car in Singapore<sup>5</sup>. Finally, given that a large number of dealers engage in similar practices, customers have few alternatives when choosing between different brands of cars on the basis of Warranty Restrictions, in any event.

56. In sum, CCS is of the view that, while car manufacturers and authorised car dealers should not be responsible for damages and defects *caused* by independent workshops, their warranty terms and conditions should not require that servicing, maintenance and repairs be carried out by authorised workshops, in order to preserve the validity of the warranty. This weakens consumers' incentive during the warranty period to use an independent workshop, which might provide cheaper and/or better services, and in turn weakens the overall competitive pressure from independent workshops on the authorised workshops.

57. However, CCS did not have concerns with respect to warranty terms that:

- a. Require customers to perform warranty repairs<sup>6</sup> at authorised workshops;
- b. Allow car dealers to reject a warranty claim over a defect or malfunction if they can establish that the defect or malfunction is caused by:
  - (i) Any repair, servicing or other actions carried out by third parties; or
  - (ii) The failure of the car owner to ensure that the car receives proper and periodic servicing according to the manufacturer's recommended schedule; or
- c. Allow car dealers to reject warranty claims in respect of parts that have been replaced or modified by third parties.

58. For the avoidance of doubt, CCS did not have concerns with regard to car dealers recommending the use or promoting the merits of their authorised workshops, e.g. quality of service, customer experience, technical expertise, use of proper equipment and use of OE

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<sup>5</sup> The total cost of a car in Singapore includes the cost of procuring a certificate of entitlement ("COE") and taxes including the additional registration fee. These costs can make up a large proportion of the total cost for consumers in Singapore.

<sup>6</sup> Warranty repairs are repairs performed by workshops to correct manufacturing defects or damages within the scope of coverage of the car warranty and whose costs are borne by the warranty provider.

Parts. However, CCS would be concerned if car dealers cast negative aspersions on the capability and integrity of independent workshops, beyond advising the car owners that car owners will bear the cost of any defect, damage or malfunction to the car that is caused by servicing or repairs by third parties.

## **ACTIONS TAKEN TO ADDRESS CONCERNS**

59. To address CCS's concerns on Warranty Restrictions, CCS met the nine (9) major authorised car dealers and several of their car manufacturers, and sought their cooperation to remove the Warranty Restrictions. All nine (9) of them agreed to do so.

60. Specifically, CCS approached and obtained the cooperation of the following major car dealers that are authorised distributors for the respective car brands shown in parentheses:

- i) Alpine (Chevrolet);
- ii) BMS (Toyota and Lexus);
- iii) C&C (Citroen, KIA, Mercedes Benz and Mitsubishi);
- iv) Eurokars (Porsche, Mazda and MINI);
- v) Kah (Honda);
- vi) Komoco (Hyundai);
- vii) MIE (Subaru);
- viii) PML (BMW); and
- ix) TCMS (Nissan).

61. In addition, CCS obtained the cooperation with respect to the warranty restrictions for Suzuki cars through BMS, which is under the Inchcape Group of UK. CCS understands from information provided by VGS (Volkswagen) and Premium (Audi) that there are no such restrictions in the warranties. CCS also understands from information provided by Euokars that there are no such restrictions in the warranties for Rolls-Royce and McLaren.

62. CCS expects all agreed changes to the warranty terms to be retrospectively implemented for existing warranties in force and new warranties by 31 December 2017. With the changes, these car dealers may void car warranties or reject claims only if they establish that the damage or defect to be claimed under the warranty is in fact caused by independent workshops.

## **CONCLUSION**

63. The removal of the Warranty Restrictions will facilitate more competition between car workshops, leading to a more competitive market with more choices for car owners, and opportunities for existing and new independent workshops. This should lead to a better market outcome for consumers, e.g. lower prices, better quality of service.

64. Although CCS has focused on major authorised car dealers and brands in its formal inquiry, CCS encourages all other car dealers to review their warranty terms and practices to ensure compliance with the Competition Act (Cap. 50B).

65. Going forward, consumers are encouraged to find out about the terms of the car warranty at the point of car purchase so as to make an informed decision. If consumers encounter such Warranty Restrictions or rejection of claims, they should first seek clarification from the relevant car dealers. If the issue cannot be resolved, consumers may consider contacting CCS. Such Warranty Restrictions whether reflected in the warranty terms or implemented in practice by the car dealer may raise competition concerns if they significantly affect competition between authorised and independent workshops. CCS will make an assessment based on the facts of each case.

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