

## **Auto Distribution: Current Issues and Future Trends A Federal Trade Commission Workshop**

The Federal Trade Commission (“Commission” or “FTC”) will host a one-day workshop exploring competition and related issues in the context of state regulation of motor vehicle distribution and how these regulations affect businesses and consumers. Specific topics for discussion will include: the regulation of dealer location; o consumers. Additionally, the workshop will examine whether and how the existing pattern of auto distribution and regulation may be affected by new developments such as autonomous vehicles, connected cars, and the rise of subscription-based automobile sharing services.

The Commission invites public comment on the questions outlined below. The Commission seeks the views of consumers, industry representatives, economists, lawyers, academics, and other interested parties. As explained below, comments will be considered for workshop planning purposes, and may inform further public discussion about these issues.

Prior to the workshop, the Commission will publish an agenda, names of speakers, and

## **Background on the Motor Vehicle Industry and Distribution Methods**

The motor vehicle industry is a critical sector of the U.S. economy. After a home, a car is often the largest purchase a consumer will ever make. In 2014 American consumers bought more than sixteen million new cars and light trucks, at an average price of \$32,618 each.<sup>1</sup> Consumers generally purchase new vehicles through independent franchised dealers, which operate under contractual relationships with motor vehicle manufacturers regarding the sale and service of vehicles.

The relationship between manufacturers and dealers is closely regulated by the states in a variety of different ways. In particular, states regulate the process of adding and terminating dealerships as well as the provision of warranty services, and have limited the direct distribution of automobiles by car manufacturers. State laws regulating auto distribution, some of which date back to the early 1950s, were enacted to address perceived inequalities in bargaining leverage between dealers and manufacturers, regulate auto manufacturer conduct, and protect small, locally-owned businesses.

This workshop will explore the rationale for the regulatory structure that currently governs manufacturer-dealer relationships in the motor vehicle industry from various perspectives, including manufacturers, dealers, and consumers. What are the public policy justifications for these regulations? What are their current effects on competition and consumers? Do less restrictive alternatives to direct regulation exist, and if so what would they look like?

Dealers and manufacturers have been arguing about the proper scope of these laws almost from their inception, and future industry trends are likely to increase the intensity of these disagreements. The motor vehicle industry has undergone substantial technology-driven change, and appears poised to undergo even more dramatic changes in the years ahead. For instance, developments in autonomous vehicles, connected cars, and automobile sharing likely will present new opportunities and challenges for industry participants, regulators, and consumers. This workshop will examine competition and consumer issues arising from the intersection of the current motor vehicle distribution system, the current regulatory environment, and anticipated future trends in the automobile industry. The workshop will consider whether, and the extent to which, these emerging trhac.j -0.004 ei1(tr)5(-9i)-1((i)-)2(np)2( w)(s)1(e). eelytpla 5( )4(f)-11 0 T

## **Dealer Location**

State statutes commonly restrict the ability of motor vehicle manufacturers to create, relocate, or terminate dealerships. Under many of these statutes, existing dealers have the right to contest manufacturers' decisions regarding the location of other dealerships. In addition, these regulations typically establish procedures by which a manufacturer may end a relationship with a dealer.

In this workshop, the Commission intends to explore the scope of state statutes governing dealer location and related aspects of the manufacturer-dealer relationship. The Commission invites public comment on questions relevant to this topic, including:

## Direct Sales

Many states restrict motor vehicle manufacturers from engaging in direct-to-consumer sales, and require manufacturers to sell only through independent franchised dealers. Recently, some new motor vehicle manufacturers have attempted to challenge this traditional distribution system by seeking to sell their products directly to consumers, without using franchised dealers. Their efforts have encountered substantial legislative resistance at the state level. The Commission invites public comment on questions relevant to this topic, including:

- What are the underlying public policy goals of a statutory prohibition on direct sales by motor vehicle manufacturers?
- Have these public policy goals changed over time since these types of regulatory restrictions were first enacted? Do these public policy goals remain relevant today?
- What are the advantages and disadvantages to manufacturers, dealers, and consumers of the existing system of motor vehicle dealer franchising?
- To what extent, and in what ways, might consumers be harmed or benefitted by a system that would permit manufacturers greater flexibility in choosing how to distribute their products?
- To what extent, and in what ways, should existing regulations apply to new manufacturers without dealer networks, versus manufacturers that already have established dealer networks?
- To the extent direct sales prohibitions serve legitimate public policy goals, are there regulatory alternatives that would achieve these goals with fewer restrictions on competition?

## New Developments and Future Trends

Like many other industries, the motor vehicle industry is undergoing significant, technology-