

EDITORIAL - Auto parts suppliers face increasing cases of price- fixing

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New investigations into unethical business practices pose serious threat to automotive industry



Auto parts suppliers are increasingly coming under the microscope for their potential involvement in fixing prices of components sold to automakers. Anti-trust regulators across the key vehicle markets are becoming more watchful and are broadening their investigations related to component pricing. Over the past three years, there has been a dramatic increase in price-fixing cases involving suppliers and executives. Anti-trust regulators have imposed hefty fines on companies while executives have been asked to pay fines, serve sentence in prison or both.

Last week, the European Commission (EC) found six suppliers involved in fixing prices of automotive bearings sold to automakers. While five of these six suppliers – Schaeffler, SKF, NTN, NSK and Nachi Fujikoshi – attracted a combine fine of EUR953 million (USD1.3 billion), the sixth, JTKET, was let off without paying a fine for blowing the whistle on the cartel. The commission found that these suppliers colluded to secretly coordinate their pricing strategy against automakers between April 2004 and July 2011. These bearings suppliers coordinated steel price increases to their customers, colluded on Requests for Quotations (RFQ) and for Annual Price Reductions (APR) from customers, and exchanged commercially sensitive information.

The EC began to probe in the alleged cartel in price-fixing of automotive bearings in 2011. As part of the investigations, the commission conducted raids on several bearings suppliers. Of late, the commission has intensified its pricefixing probe in the light of similar investigations and disclosures made in Japan and North America. In the US, for example, 23 companies and 26 executives have been charged by the Department of Justice. These companies and executives have agreed to pay a total of USD1.8 billion in fines. As a part of plea agreement, some executives have even agreed to serve prison terms in the US.

Regulators in some other markets have also started investigating unfair practices. In December 2013, the Korea Free Trade Commission (KFTC) fined units of Denso, Continental and Bosch a total of KRW114.6 billion (USD107.8 million) for their involvement in fixing prices of components sold to Hyundai and its affiliate Kia. The South Korean anti-trust regulator found that these leading suppliers were involved in fixing prices of instrument panels and windshield wipers sold to the automakers.

Last year, the EC imposed a combined fine of EUR141.8 million (USD181.7 million) on four wiring harness suppliers – Leoni, Furukawa Electric, Yazaki, and one of its subsidiaries – for taking part in five cartels. The fifth supplier, Sumitomo Electric escaped the fine for blowing the whistle on the cartel. In January this year, three suppliers Recticel, Carpenter Group and Greiner Holding agreed to pay the EC a fine of EUR114 million (USD158.6 million) to settle a probe into foam used in mattress and car seats.

This might be just a tip of the iceberg in price-fixing involving auto parts suppliers. At the beginning of this year EU Competition Commissioner Joaquin Almunia said that the price-fixing among car suppliers had “attained an unbelievable magnitude, affecting virtually any part a car was made of.” Last week, Almunia reiterated the EC’s commitment to deal sternly with cartel. “We will not stop here. We are still investigating suspected cartels for airbags as well as lighting systems of the cars to mention a few examples”. The EC expects that the heavy fines imposed on the suppliers will act as deterrents for other companies.

The growing cases of price-fixing pose a serious threat to the automotive industry. Automakers trust that their suppliers will supply high quality products at competitive price, especially as they increasingly look for the best technology from the global supply base. Purchasing strategies at major OEMs are currently changing to suit suppliers.

Last year, GM termed price-fixing among suppliers “unacceptable”. “We are greatly concerned by the large number of suppliers in the automotive supplier sector who have pled guilty to serious criminal price-fixing charges,” the US automaker said at that time in a statement. Meanwhile Toyota said in a statement that it “expects its suppliers to provide the company with quality parts at competitive prices, while complying with all applicable laws in the markets where they do business.” The Japanese automaker further added, “We are committed to supporting free and fair competition among suppliers, and we have code of conduct guidelines in place that we expect suppliers to meet. We take any violations of these guidelines seriously.”

Such incidents are bad for the suppliers’ reputations as well. The companies, who have been found guilty in price-fixing have expressed deep concern and promised to take corrective measures so that such incidents never happen again. These suppliers have assured that they will intensify compliance and training programmes. Last week, some suppliers, particularly Japanese firms, also expressed regrets the price-fixing episode caused their shareholders, customers and other stakeholders.

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