

March 3, 2020

The Honorable Dereck Davis
Chair, House Economic Matters Committee
Room 231
House Office Building
Annapolis, Maryland 21401

HB 1064: Vehicle Laws - Manufacturers and Dealers
Position: Unfavorable

Dear Chairman Davis:

On behalf of the Alliance for Automotive Innovation,¹ please accept the following comments in opposition to HB 1064, which represents the latest in a litany of bills that are based on the incorrect premise that automobile dealers need special laws to protect them from their automakers. In actuality, car dealers and manufacturers are business partners that need each other in order to succeed.

HB 1064 seeks to use state law to mandate even higher profit margins for car dealers, which would necessarily create unreasonable costs on automobile consumers and manufacturers. There is no public policy reason for the state to involve itself in this area. The state should not overrule business-to-business contracts to favor one party's profits over another's. What's more, dealers are already enjoying healthy profits and do not need state intervention. The National Automobile Dealers Association reports that the average dealers' pretax net profit in 2019 was \$1,423,848 which was a 4.8% increase over 2018.²

HB 1064 focuses on how manufacturers honor the warranty on vehicles that they produce. Manufacturers rely on car dealers to perform repairs covered by the warranty, and the

¹ Formed in 2020, the Alliance for Automotive Innovation is the singular, authoritative and respected voice of the automotive industry. Focused on creating a safe and transformative path for sustainable industry growth, the Alliance for Automotive Innovation represents the manufacturers producing nearly 99 percent of cars and light trucks sold in the U.S. The newly established organization, a combination of Global Automakers and Alliance of Automobile Manufacturers, will be directly involved in regulatory and policy matters impacting the light-duty vehicle market across the country. Members include motor vehicle manufacturers, original equipment suppliers, technology and other automotive-related companies and trade associations. The Alliance for Automotive Innovation is headquartered in Washington, DC, with offices in Detroit, MI and Sacramento, CA. For more information, visit our website <http://www.autosinnovate.org>.

² www.nada.org/WorkArea/DownloadAsset.aspx?id=21474859932

manufacturer then reimburses the dealer for its costs and pays a profit markup. According to state law, that profit markup rate is the same that retail customers pay for non-warranty repairs (which means that the manufacturer gets no volume discounts despite being a steady, volume customer). The state law also provides dealers with a cause of action for a lawsuit if the dealer and manufacturer disagree about those reimbursement rates.³

HB 1064 exacerbates the already flawed law by requiring a manufacturer pay a dealer for an inaccurately high number of hours of repair work. Manufacturers produce time guides that are meant for use in warranty repairs. Those time guides are rigorously developed time studies created under conditions favorable to dealers. HB 1064 allows dealers to demand to be paid using third party time guides or even no time guide. Third party time guides are intended for non-warranty work at independent repair shops. In other words: for work performed by mechanics that do not have specific training on a make of vehicle, and for work performed on older vehicles with factors such as rust, dirt, and stripped fasteners that make repairs more difficult. Those third-party time guides are not based on time studies but instead opinions and estimates of how long an independent repair shop would need for a non-warranty repair.

Take for example a repair such as a replacement of a water pump that is covered under warranty. If this bill were enacted in law, the dealer would now be permitted to charge the automaker for more time than what is called for in the automaker time guide. The automaker would have to pay the dealer the inflated number of hours allocated in the third-party time guide multiplied by the dealer's labor rate.

Additionally, because the manufacturer is the dealer's largest customer and because the manufacturer must pay based on the hours that the dealer charges retail customers, that encourages dealers to charge car owners whose car is no longer covered by warranty the higher number for hours to complete the job set in the third party time guide *regardless of the time it actually took to make the repair*.

In the end, car owners would pay for this legislation either directly on non-warranty repairs or indirectly through the higher costs under which automakers will be forced to operate. HB 1064 is both an unnecessary bill and an unreasonable bill. The Alliance for Automotive Innovation respectfully asks you to vote against this bill. For more information, please contact our local representative, Bill Kress, at (410) 375-8548.

Sincerely,



Josh Fisher
Director, State Affairs
Alliance for Automotive Innovation

³ MD. CODE ANN., TRANSP. § 15-212.