

New F1 Regulations attempt to inject some competition

Thomas Webb, Legal Director at Burges Salmon LLP, summarises the recently announced changes to the Formula One Grand Prix regulations for 2017 and explores their potential impact on the smaller teams and the sport in general.

The 2017 regulations

The problem

Formula One has had a difficult few years. The new hybrid V6 turbocharged power units have met with mixed reactions. The Mercedes AMG Petronas F1 Team, which is widely accepted as having developed the best power unit, has replaced Red Bull Racing as the dominator of the sport for the last few seasons. Most worryingly of all, the financial and performance gap between the 'big four' of Mercedes, Ferrari, Red Bull and McLaren, and the smaller 'customer' teams, appears greater than ever. This was brought into sharp relief in 2014 when Caterham F1 Team and Marussia F1 Team collapsed. More recently, Red Bull Racing's future in the sport appeared in doubt when they were left without an engine supplier at the end of 2015. It is perhaps no surprise, then, that viewing figures have dropped by tens of millions in recent years'.

In the hope of a more auspicious future, motor sport's governing body the FIA and F1 stakeholders have consulted on rule changes which should improve the cars, soothe relationships and inject much needed competitive excitement into the sport.

The FIA issued the Technical Regulations and the Sporting Regulations (together the 'Regulations') on 29 April 2016 to mixed reviews. Some teams are enthusiastic, others are angry and F1 enthusiasts everywhere have

been scrambling to work out whether the Regulations are better, worse, or more of the same.

The solution

The brief for the 2017 Regulations was to address four key areas: the cost of power units for the customer teams; the obligation to supply power units to the customer teams; the performance gap between teams; and engine noise. The Regulations signal the greatest change to the rules of Formula One since the introduction of V6 turbo engines in 2014. The objective of the changes is to level the playing field and increase competition between manufacturer teams (who both manufacture and use their engines) and customer teams (who have to buy their engines from the manufacturer teams). The changes will come into effect in the 2017 F1 season.

Power unit price

The Regulations require the four engine manufacturers (Mercedes, Ferrari, Renault and Honda) to reduce the cost of each power unit by €1 million compared with the 2015 season. From 2018, this cost will be reduced by a further €3 million per unit. This will give customer teams a discount of around €28 million per year. In 2017, to reduce costs each driver will have only four power units for the whole season. From the 2018 season, the number of power units available to each driver will reduce to just three. In a further effort to reduce costs, sensor systems fitted to the units will be standardised.

Power unit supply

The Regulations set out mandatory engine supply requirements on the engine manufacturers. This will, in theory, guarantee the supply of engines to the customer teams. Any team without an engine will approach the FIA who will decide,

based on the lowest number of customer contracts, which manufacturer will supply the team. If two or more manufacturers have the same number of customers, it will go to a ballot.

The FIA, if they approve, can still allow manufacturers to sell homologated, year-old power units in future seasons. If the FIA declines to allow the manufacturers to provide such old power units, the manufacturer will be required to supply a current generation power unit and to provide updates.

The Regulations make clear that the manufacturing teams will not be allowed to provide different specifications of power units for different teams. This will prevent Ferrari, for example, supplying a different specification engine to Toro Rosso from that which it supplies to other customer teams.

Power unit convergence

The Regulations seek to achieve a level of convergence in power output from the power units of different manufacturers. This attempted convergence will be brought about through a number of technical measures specified in the Regulations. The first of these is the abolition of the 'token system,' whereby teams could use a limited number of tokens to improve certain parts of the power units during the season. Instead, the Regulations specify limits on dimensions, part weights and materials used in the power units.

Sound

Central to the recent criticisms of Formula One is that the V6 turbocharged hybrid power units are too quiet and that they lack the characterful sound of the 2.4 litre V8 engines, let alone the high revving 3.0 litre V10 and 3.5 litre V12 engines of previous decades.

There is no proposal to revert to the V8 engines: smaller capacity,

hybridised and turbocharged engine technology is more palatable. Instead, Mercedes is developing a 'sound generator' designed to increase the intensity and quality of the engine sound.

Other changes

The width of the cars, excluding tyres, has been increased from 1,800mm to 2,000mm. This allows for a larger floor and will support wider wheels and tyres: complete wheel width has increased from 305-355mm to 365-380mm at the front and from 365-380mm to 450-465mm at the rear. The purpose of all of these changes is to increase grip and lap speed.

Commentary

The changes to the Regulations have met with mixed reactions.

The benefits

Certainly there are benefits: First, costs relating to power units will be reduced. Second, Red Bull Racing's unfortunate situation where it was left without a power unit at the end of the 2015 season should be avoided altogether. Third, certain of the teams see the changes as a potential boost to competition. Red Bull Racing's motorsport advisor Helmut Marko believes that if this is implemented effectively, "that would put us back up in a position where we will win races again - and fight for championships again".² Finally, there appears to be universal agreement that the abolition of the token system is positive as it will enable teams with a technical disadvantage a chance to catch up.

The question marks

However, there are concerns about the new Regulations. First, the four current engine manufacturers appear to have effectively secured complete control over the supply of engines to customer teams. The prospect of teams developing their

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own engines, or sourcing an independent manufacturer, is, according to Marko, "off the table."

Second, the mandatory €1 million discount on power units is arguably an illusory benefit for the customer teams. The price of each power unit to which the discount is applied is not fixed: power unit supply agreements reportedly vary from €16 million to €28 million. A €1 million decrease in price is going to provide little relief to the budgets of customer teams.

Third, the manufacturer teams develop the power units, so they possess all of the knowhow and IP that relates to them.

Fourth, the wider car design will likely increase aerodynamic turbulence or 'dirty air.' This will make it harder for cars to run closely behind one another through corners and, therefore, harder to overtake. The fear is that Formula One will return to the races that were seen in the 1990s and 2000s before narrower cars and wings were introduced.

Fifth, many have criticised the changes to the Regulations as simply "fiddling around the edges" in respect of levelling the playing field. Nothing in the Regulations affect the real inequalities that lie at the very core of Formula One, namely in relation to the distribution of prize money. For example, in 2015, the prize money was distributed as follows, in spite of the finishing positions in the Constructors Championship: 1. Mercedes: \$171m; 2. Ferrari: \$192m; 3. Williams: \$87m; 4. Red Bull: \$144m; 5. Force India: \$67m; 6. Renault: \$64m; 7. Toro Rosso: \$57m; 8. Sauber: \$54m³; 9. McLaren: \$82m; and 10. Manor: \$47m. Consequently, the smallest teams make a collective loss of hundreds of millions of Euros. The financial strain on Caterham and Marussia was so great that they entered administration in 2014.

The financial inequality results in part from the Constructors Championship Bonus Fund and side letters with top teams. Ferrari, for example, reputedly receives a minimum of \$30 million prize money plus 5% of F1's overall profits, feasibly \$100 million. This is in addition to Ferrari's veto to block sporting and technical regulation changes.

The financial inequality and the dissatisfaction amongst the smaller teams, culminated in Sauber and Force India writing to the EU Commission last year to complain that the financial arrangements in Formula One put the smaller teams "at a perpetual sporting and economic disadvantage."

Finally, the Regulations do nothing to affect the current governance structure which is arguably weighted to protect the interests of the 'big four.' At present, the Strategy Group is comprised of Bernie Ecclestone and the FIA, who have six votes each. The six leading teams have six votes between them. A simple majority is needed to pass motions. If Ecclestone and the FIA vote one way, the teams are powerless.

Conclusion

The Regulations appear to many to be fine so far. However, they will do little to assuage the concerns of customer teams who are now dependent upon manufacturers and who have no end to their financial difficulties in sight.

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