PRODUCT RECALLS: THE NATIONAL CONSUMER COMMISSION GUIDELINES

Section 60(1) of the Consumer Protection Act, No 68 of 2008 (CPA) provides that the National Consumer Commission (NCC) must promote the development, adoption and application of an industry-wide code of practice providing for effective and efficient systems to receive notice of consumer complaints or reports of product failures, defects or hazards and the return of any goods because of a defect or failure. To this end, the NCC published the Consumer Product Safety Recall Guidelines (guidelines) in the Government Gazette, on 13 June 2012.

The purpose of the guidelines is to provide guidance to suppliers on how to conduct a product safety recall in the following circumstances:

- as a result of an unsafe product from a manufacturing or production error where the manufacturer of the product departed from its design or material specifications during production; or
- as result of a design defect, despite the product being manufactured exactly in accordance with its design and specifications.

The guidelines require a supplier to adopt a system that will ensure the efficient and effective recall of unsafe consumer products from consumers and from the supply chain and have been developed to assist suppliers in planning for, and responding to, an incident where the recall of potentially unsafe consumer products is required.

continued
The guidelines do so by setting out:

• the legal requirements for suppliers in relation to a consumer product recall;

• the roles and responsibilities of suppliers and government agencies when recall is necessary;

• requirements for conducting a recall, including:
  • notification (of consumers potentially affected by the product defect);
  • recall strategy (a strategy developed by the supplier – which ought to be presented to the NCC ahead of the implementation of the recall);
  • retrieval of the products (being the manner in which the recall is to be implemented); and
  • reporting on the recall (advising the NCC of the progress of the recall at regular intervals).

The range of goods covered under the CPA (and therefore to which the guidelines apply) is broad and covers any goods as defined by the CPA including: anything marketed for human consumption; any tangible object including any medium on which anything is or may be encoded; any literature, music, photograph, motion picture, game, information, data, software, code or other intangible product written or coded on any medium, or a licence to use such intangible product.

Of particular importance is that the guidelines do not only apply to products which were manufactured in South Africa – they also apply to products that were manufactured outside of South Africa and thereafter imported and supplied to consumers in South Africa.

Practical considerations

The guidelines provide for both voluntary product recalls initiated by suppliers as well as compulsory product recalls ordered by the NCC.

When a supplier becomes aware of a possible safety hazard in a consumer product that may cause injury to a person, the supplier should immediately conduct an assessment that includes the following documented steps:

• gathering and assessing the reliability of all available information about the potential hazard;

• identifying how the problem occurred;

• conducting a comprehensive risk analysis;

• looking at all possible ways to address the safety related hazard, including:
  • ceasing distribution of a product that has been identified for recall;
  • ceasing or modifying the manufacturing process for a product that has been identified for recall; and
  • removing the unsafe product from the marketplace.

The NCC requires a supplier to contact it when commencing such an assessment. The purpose is presumably to enable the NCC to work with the supplier to determine what action (if any) is required to mitigate a safety related product hazard. If it is determined in the course of the assessment that the product in question should be recalled, the guidelines recommend the adoption of a written recall strategy. Furthermore, this recall strategy should be negotiated with the NCC prior to its adoption.

The guidelines recommend that the recall strategy include the following information:

• an explanation of the problem, including the hazard associated with the product and the supplier’s assessment of the risk posed by the product;

• the number of units supplied to consumers and others in the supply chain;

• information about any known injuries or incidents associated with the product;

• information about the life cycle of the product;

• information about the proposed communication with consumers, including the method of communication, frequency with which the communication will be repeated and details of the message;
• information about the way in which the supplier will manage contact from consumers about the recalled product, including any complaint handling procedures;

• information about the manner in which the recalled product will be collected, destroyed or rectified;

• contact details of the manufacturer and/or importer of the product;

• contact details of other entities in the supply chain to whom the recalling supplier has supplied the product;

• contact details of international product recipients; and

• action taken by the supplier to identify and correct the cause of the hazard, including the outcome of any root cause analysis or the time period in which such analysis will occur.

In terms of the guidelines, matching the communication medium to the consumer is important to achieve the objective of compliance with a recall notice. Communications regarding the recall should therefore be directed towards the particular consumer demographic for the recalled product, using an appropriate communication method.

The guidelines set out minimum requirements in respect of the written recall notification to the public, which must include:

• a clear description of the product, including the name, make and model and any distinguishing features, batch or serial numbers, including dates that the product was available for sale;

• a photograph or drawing of the product which will provide the consumer a visual representation of the product;

• a clear description of what the defect is which complies with the plain language requirements of the CPA. The defect should be described in simple terms so that the average consumer can understand, and reference to technical specifications should not be included where possible;

• a description of the maximum potential hazard and associated risk. Where available, an appropriate hazard symbol should be included;

• a section titled "what to do", which explains the immediate action the consumer is to take, for example, cease use immediately and return product to the place of purchase for a full refund. It should be clear that the consumer should return the product and not dispose of it. The supplier must ensure that it minimises the inconvenience to consumers to encourage consumer compliance with the recall notice; and

• a section titled "contact details", which explains who consumers should contact to receive a refund or have the product repaired or replaced. Include business and after hours telephone numbers, preferably toll free and email and website addresses.

The supplier is also required to notify any person outside South Africa to whom it has supplied goods that the goods are subject to a recall. The notification must state that goods are subject to a recall and, if the goods contain a defect, have a dangerous characteristic or do not comply with a prescribed consumer product safety standard, set out the nature of the problem or non-compliance. The supplier is required to provide the NCC with a copy of such notice within 10 days of it being sent.

The NCC requires a supplier who undertakes a safety related recall of consumer goods to notify any entity from within the domestic supply chain in writing that a recall has been initiated, and thereafter confirm to the NCC that such notification has been provided.

It is debatable as to whether the guidelines are just that, a guideline for action, or whether they create binding obligations in law, which some of the language in the guidelines suggest is the case.

While it is not clear to what extent these guidelines are binding, at the very least suppliers engaging in a product recall should ensure that their conduct substantially complies with the guidelines.

It is hoped that these guidelines will assist in providing a practical procedure to be followed by suppliers, so as to effectively and efficiently remove unsafe and defective products from consumers, where such products have already been delivered, and in preventing unsafe and defective products from being supplied to consumers, where such products are in the supply chain. This will ensure that all unsafe products are removed from the marketplace and the hands of consumers.

Justine Krige
GENETICALLY MODIFIED ORGANISMS AND THE CONSUMER PROTECTION ACT

One of the purposes of the Consumer Protection Act, No 68 of 2008 (CPA) is to "promote and advance the social and economic welfare of consumers" by "improving consumer awareness and information and encouraging responsible and informed consumer choice and behaviour".

Consistent with these objectives, particularly in relation to the disclosure of information, are the provisions in the CPA and the Regulations thereto which deal with product labelling and trade descriptions and oblige manufacturers to disclose where packaged foodstuffs contain, or may potentially contain, genetically modified organisms (GMOs), as defined in the Genetically Modified Organisms Act, No 15 of 1997.

South Africa adopted genetically modified crops in 1997, and currently produces genetically modified maize, soybean and cotton.

Regulation 7 to the CPA

Regulation 7, which came into force on 31 September 2011, requires specific notices to be reflected on foodstuffs where:

- goods are produced using genetically modified process;
- goods contain GMOs; or
- it is likely that goods contain traces of GMOs.

Goods containing GMOs

Regulation 7(3) states that all goods comprised of at least 5% of GMOs must carry a specific notice informing consumers of the GMO content, and the notice must appear in all marketing material.

Thus, goods with less than 5% GMO content require no notice. Companies may therefore make use of Regulation 7(3) which allows them to positively assert that a product contains less than 5% GMOs. However, it is presently unclear how the percentage of GMOs in a good is to be calculated and, in this regard, numerous civil society organisations have criticised the Regulations in not going far enough in requiring companies to inform consumers where their goods are made up of less than 5% GMOs.

In terms of Regulation 7(6), goods with 1% GMO content may not be marketed as being 'GMO free'. This provision has been the subject of much criticism as it allows companies to positively assert that a good does not contain GMOs in cases where the good is comprised of 0,99% GMOs.

Goods that 'may' contain GMOs

Regulation 7(8) applies in situations where it is "scientifically impractical or not feasible" to test a good to determine whether it contains traces of GMOs. In such a case, the Regulations require that the good must carry a notice (which must be included in all marketing material) indicating that the good in question "may contain genetically modified ingredients".

It is unclear precisely when it would be 'scientifically impractical' or 'not feasible' to test goods – the onus for establishing that these thresholds apply is doubtless to be borne by the company that seeks to rely on these provisions. It is likely, however, given the widespread contamination of non - genetically modified foodstuffs with genetically modified ingredients that virtually all goods on supermarket shelves will at the very least carry the notice "may contain genetically modified ingredients".
Conclusion

The prevalence of GMOs in goods indicates that Regulation 7 is going to have far-reaching effects for companies involved in the GMO supply-chain. In the spirit of the CPA, Regulation 7 empowers consumers with the right to choose between genetically modified products and non-genetically modified products.

A lack of knowledge on the part of the South African public and the Regulations has had the effect of causing increased concern. The Regulations only require food producers to state if foodstuffs are comprised of GMOs, and do not place an obligation on food producers to educate consumers. We therefore suggest that food producers should educate consumers about what GMOs are so that consumers can make an informed decision without unnecessarily fearing the inclusion of GMOs.

Justine Krige

PROMOTIONAL COMPETITIONS 101

The South African market place has a prolific number of promotional competitions spanning all forms, traditionally on cereal boxes, on radio and in newspapers, but more recently held in retail stores, via SMS, and on social media platforms such as Facebook and Twitter.

Many of these competitions appear to not comply with the provisions of the Consumer Protection Act, No 68 of 2008 (CPA) and promoters run the risk of incurring penalties for non-compliance.

Having previously been regulated by the Lotteries Act, No 57 of 1997 (Lotteries Act), promotional competitions are now governed by the provisions of the CPA, which is significantly more detailed in its reach and places a greater burden on promoters. In light of the increased regulation of promotional competitions, it is likely that the National Consumer Commission (NCC) will at some point clamp down on promoters and possibly levy penalties under the CPA for non-compliance.

A 'promotional competition' means any competition, game, scheme, arrangement, system, plan or device for distributing prizes by lot or chance if:

• it is conducted in the ordinary course of business for the purpose of promoting the sale of any goods or services; and
• any prize exceeds the prescribed threshold, being an amount of R1.00, irrespective of whether or not a participant is required to demonstrate any skill before being awarded a prize.

The Supreme Court of Appeal (SCA), in the case of National Lotteries Board v Bruss N.O. and Others had occasion to deal with the definition of a 'promotional competition' in the context of the Lotteries Act. In that case, the National Lotteries Board approached the High Court (and later the SCA) for an order declaring an SMS competition (which required entrants to pay R7,50 to enter) run by a charitable trust to be contrary to the National Lotteries Act, as it was an illegal lottery, on the basis that the entry fee paid via the SMS constituted a subscription.

The key question that the SCA had to determine was whether the SMS competition constituted a 'promotional competition' – which turned on whether the competition entailed the "promotion of goods or services". The SCA ultimately held that although the competition had a charitable objective and that its main activity was the raising of funds for the charitable trust, the fact that it promoted goods and services of various sponsors meant that it fell within the definition of a 'promotional competition' and, accordingly, was unlawful on the basis that the entry fee charged created revenue for the promoters.

It remains a key requirement under the CPA that entry to a promotional competition must be free. It is permissible to require a consumer to purchase a product as a qualification for entry but the product must be sold in that transaction at its normal price. Promoters are not allowed to recoup the costs associated with administering a promotional competition, or to profit, through the levying of an entry fee.

continued
The CPA also provides that offers in respect of promotional competitions must include a set of rules that clearly advise prospective participants of the following:

- the competition to which the offer relates;
- the steps required by a person to participate in the competition;
- the basis on which the competition results will be determined;
- the medium through which the competition results will be made known; and
- the person, place and date at which a person may obtain a copy of the competition rules and a winner may receive a prize.

The promoter must ensure that an independent accountant, registered auditor, attorney or advocate oversees and certifies the conducting of the competition and must report this through the promoter’s internal audit reporting or other appropriate verification procedures. It is not clear what is intended by an 'independent' person and whether internal legal advisor, for example, will qualify as being independent. If not, promoters may incur significant legal costs in appointing independent advisors to oversee and certify the conducting of competitions. Moreover, it is not clear as to what activities exactly fall within the scope of overseeing a competition.

Furthermore, the promoter must, for a period of at least three years, retain certain information, including:

- the full details of the promoter;
- the competition rules;
- the names and identity numbers of the persons responsible for conducting the competition;
- a full list of all of the prizes;
- a selection of marketing materials;
- the details and dates of how and when the competition was marketed;
- an acknowledgment of receipt of the prize signed by the prize winner;
- declarations that the prize winners were not directors, employees, partners, agents or consultants of the promoter;
- the basis on which the winners were selected;
- a summary describing the proceedings to select the winners;
- whether an independent person oversaw the determination of the winners;
- the means by which the winners were announced;
- a list of the names and identity numbers of the winners;
- a list of dates on which the prizes were handed over to the winners;
- the names and identity numbers of the persons responsible for selecting the winners;
- in the event that a winner could not be contacted, the steps taken to contact the winner; and
- in the event that a winner did not receive the prize, the reasons therefore.

Consequently, running a promotional competition imposes a significant administrative and financial burden on promoters. Although the NCC has not imposed any punitive fines in this respect yet, it is likely that promoters may face censure in the future and, accordingly, that the requirements referred to above are adhered to.

Justine Krige
TRADE COUPONS AND SIMILAR PROMOTIONS

Trade coupons may not be as prevalent in South Africa as in other countries, such as the United States of America, nevertheless, where trade coupons are used as part of a supplier's marketing activities the Consumer Protection Act, No 68 of 2008 (CPA) should be borne in mind.

In terms of s 34 of the CPA, an offer or promise of any prize, reward, gift, free good or service, price reduction or concession, enhancement of quality or quantity of goods or services, that is expressed in any manner would be a promotional offer which may only be conducted in accordance with the provisions of the CPA. It is clear that the use of trade coupons as a marketing strategy will fall under the wider definition of a promotional activity.

In line with the overall purpose of the CPA which includes improving consumer awareness and information and encouraging responsible and informed consumer choice and behaviour, the CPA sets out the information that should be set out on a trade coupon (or similar promotional offer). This information includes:

i. a description of the prize, reward, gift, free good or service, price reduction etc being offered;

ii. the goods or services to which the offer relates;

iii. how a consumer can redeem the trade coupon; and

iv. where, when and under which circumstances the consumer can redeem the trade coupon.

The provision of such information is clearly for the benefit of the consumer to give the consumer better insight prior to accepting an offer. The CPA provides further protection to the consumer by prohibiting bait marketing through the use of trade coupons by requiring suppliers to only use trade coupons where they intend to truly fulfil the offer in the exact manner stated on the trade coupon.

The CPA places four main duties on a supplier making use of a trade coupon for marketing purposes:

- Firstly, the supplier must ensure that it has sufficient capacity to satisfy the reasonably anticipated demand for the benefit offered in terms of the trade coupon. This does not mean that a supplier must have an unlimited supply of the benefit but that the supplier should have sufficient supply based on what it anticipates the uptake of the benefit would be by consumers. Where a supplier does not ensure that it has enough of the benefit to supply to consumers its conduct may be considered to constitute a form of bait marketing, which is illegal. Where a supplier does not have sufficient stock to ensure the anticipated demand is satisfied the supplier should offer to supply or arrange another person to supply the consumer with comparable goods or services in terms of the accepted promotional offer. Nevertheless, should the consumer unreasonably refuse to accept the replacement goods or services a supplier would not be acting in contravention of this provision.

- Secondly, a supplier must not make the redemption of the trade coupon subject to any requirement other than would apply where the consumer would be paying for the benefit.

- Thirdly, the supplier must also make sure that the consumer is given goods or services offered that are of the same quality as those goods and services that are generally available to any other consumer who purchases the goods or services on the same day.

- Lastly, the supplier may not charge the consumer anything for the use of the trade coupon.

The requirements imposed by the CPA for the lawful use of trade coupons seek to ensure that consumers are not subjected to false or misleading advertising that is aimed at luring a consumer through the offer of a benefit to engage with the supplier and, subsequently, the offer is not fulfilled based on requirements to redeem the offer or the benefit being unavailable.

Leana Engelbrecht and Tshepiso Scott

1 Loyalty programmes and promotional competitions are regulated separately in the CPA.
A franchised business is an attractive option to an entrepreneur, offering the freedom to own a business while having the security and support of an already established and proven system. Countries such as Australia, Canada and the United States of America have regulated franchises in legislation for many years. However, in South Africa, franchised operations were not subject to any particular legislation until relatively recently, with the enactment of the Consumer Protection Act, No 68 of 2008 (CPA).

The introduction of the CPA brought about provisions which deal specifically with franchises in an effort to protect franchisees. In particular, one such provision places an obligation on the franchisor to provide a prospective franchisee with a disclosure document, at least fourteen days prior to the signing of a franchise agreement. The disclosure document essentially provides the franchisee with a window into the current and future state of affairs of the business.

The Regulations to the CPA set out that the disclosure document must be signed by an authorised officer of the franchisor and must contain certain minimum information. This information includes:

i. the number of individual franchised outlets already franchised by the franchisor;

ii. the growth of the franchisor’s turnover and net profit;

iii. a statement confirming that there have been no significant or material changes in the franchisor’s financial position since the date of the last auditor’s certificate, alternatively, a certificate confirming that the company has reasonable grounds to believe that it will be able to pay its debts when due; and

iv. written projections in respect of the level of potential sales, income, gross or net profits or other financial projections of the franchised business, accompanied by particulars of the assumptions upon which these representations are made.

The Regulations further require that the disclosure document be supplemented by a certificate that has either been issued by an accounting officer or auditor, certifying that:

i. the business of the franchisor is a going concern;

ii. to the best of his or her knowledge the franchisor is able to meet its current and contingent liabilities, as well as its financial commitments in the ordinary course of business as they fall due; and

iii. that the franchisor’s audited financial statements for the preceding financial year have been prepared in accordance with South African generally accepted accounting standards.
In addition to the above, the disclosure document must attach a list providing information relating to the current franchisees, together with their contact details and a clear statement that the prospective franchisee is entitled to contact any of the franchisees listed or may visit any of the outlets operated by those franchisees. The franchisor must also provide an organogram illustrating the support system in place for franchisees.

As a general observation, most of the information required to be included in the disclosure document pertains to the financial position of the business. Moreover, in essence, the disclosure document goes to one of the fundamental purposes of the CPA, as described in the preamble, which is to improve access to and the quality of information so that consumers are able to make informed choices according to their individual wishes and needs.

While the collation of all of the information required by the Regulations may be time consuming for the franchisor, and perhaps also a costly exercise, failure to comply with the provisions of the CPA exposes a franchisor to potential administrative penalties and the risk of having a franchise agreement cancelled or terminated. Accordingly, franchisors should take steps as soon as possible to ensure that their disclosure documents adhere to the regulatory requirements.

Kayley Keylock and Christelle Wood

**DISCLOSURE OF PRICE – WHAT YOU SEE IS WHAT YOU GET?**

Everyone loves a good deal. With the rand plummeting and fuel prices soaring, everyone is looking for some good news. So if a customer were strolling through their local electronics store and saw a price tag on the latest smartphone which read R1099.99 instead of R10999.99, it would not be difficult to understand why they would experience a strong desire to believe that the former figure were somehow the accurate one. Such a mistake may seem implausible, but it happens, creating some very awkward moments for customer relations officers and some interesting material for consumer protection law.

In South Africa, the promulgation of the Consumer Protection Act, No 68 of 2008 (CPA) ushered in a new era for consumers. The CPA provides for a number of fundamental consumer rights and creates prohibitions on an extensive list of unfair business practices by suppliers. Say 'goodbye' to unwanted direct marketing, 'lotsiens' to deceptive representations about goods or services and 'hamba kahle' to those annoying late night callers who claim that you've won a competition only to obliterate your visions of Mauritius with a sales pitch. What is of particular interest for purposes of this article though, are the provisions relating to the disclosure of price of goods or services in s23 of the CPA.

The CPA stipulates that a retailer cannot display goods for sale without displaying a price for those goods. The wording of the CPA, in respect of how that price should be displayed, is fairly wide. It can be written, printed, stamped or located upon the goods. It can be on a band or a ticket, a covering, a label, a package, a reel, a shelf or 'other thing'. In a nutshell, it must be clear that the price you see is applicable to the goods that you are looking at. Now that you can see the price, the pivotal question arises: what if the price that you see is wrong?
The good news for consumers and bad news for suppliers is that, subject to certain exceptions, a supplier may not demand that a consumer should pay a higher price than the displayed price. If there is more than one price, then the lowest price applies. Thankfully, for suppliers, it is not a complete free-for-all for opportunistic consumers though. The provision won’t apply if the price has been determined by public regulation, nor if the first price has been wilfully concealed by a second price. It also will not apply if the supplier has corrected an ‘obvious error’ and taken reasonable steps to inform consumers. Here the tantalising thought for the consumer may well be – what is an obvious error and what are reasonable steps taken to correct such? The CPA does not provide any guidance and so far there have been no decisions from the Consumer Tribunal or the courts to elucidate this issue. What is obvious to the retailer may be a lot less obvious to the person wanting the latest smartphone. Nevertheless, suppliers would be well advised to be vigilant about removing old or inaccurate price tags, labels and ‘other things’ from their stock. Finally, the provision will also not apply if an unauthorised person has removed or altered the price. No doubt that will allow a store manager or two to breathe a deep sigh of relief. They may also be relieved to know that the CPA deems the shelf price of goods advertised at a discount to include the discount, unless the discounted and original prices are recorded next to the goods.

One of the laudable aims of the CPA is to protect vulnerable consumers. Certainly, if a consumer were aware of their right to insist on the displayed or the lower displayed price, it may make that consumer considerably better equipped to deal with unscrupulous suppliers. However, since suppliers themselves are vulnerable in these dark, global-economic-downturn times, it will be important for suppliers to ensure that price tags are correct - or failing that, that an excellent customer relations manager is at hand.

Megan Badenhorst
For more information about our Consumer Protection services, please contact:

**Nick Altini**
National Practice Head
Director
T +27 (0)11 562 1079
E nick.altini@dlacdh.com

**Chris Charter**
Director
T +27 (0)11 562 1053
E chris.charter@dlacdh.com

**Albert Aukema**
Senior Associate
T +27 (0)11 562 1205
E albert.aukema@dlacdh.com

**Allan Hannie**
Director
T +27 (0)21 405 6010
E allan.hannie@dlacdh.com

**Anita Moolman**
Director
T +27 (0)21 405 6122
E anita.moolman@dlacdh.com

**Leana Engelbrecht**
Senior Associate
T +27 (0)11 562 1239
E leana.engelbrecht@dlacdh.com

**Chris Charter**
Director
T +27 (0)11 562 1053
E chris.charter@dlacdh.com

**Kendall Keanly**
Senior Associate
T +27 (0)21 481 6411
E kendall.keanly@dlacdh.com

**Kayley Keylock**
Senior Associate
T +27 (0)21 481 6379
E kayley.keylock@dlacdh.com

**Justine Krige**
Senior Associate
T +27 (0)21 481 6379
E justine.krige@dlacdh.com

This information is published for general information purposes and is not intended to constitute legal advice. Specialist legal advice should always be sought in relation to any particular situation. Cliffe Dekker Hofmeyr will accept no responsibility for any actions taken or not taken on the basis of this publication.