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Consumer News

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CONSUMER NEWS

by Ray Chao

U.S. and China reach agreement after bitter debate

After months of negotiation, accuations, and threats, the United States and China signed an agreement concerning intellectual property piracy. China has agreed to crack down on copyright piracy. In addition, China agreed to lower import barriers on American movies, heavy machinery, beer, wine, textiles, and clothes. In return, China hopes the U.S. will facilitate China's bid to join the World Trade Organization (WTO). The WTO sets rules for world trade and replaces the General Agreement on Tariffs and Trade (GATT).

While the U.S. supports China's membership, the U.S. and other members have argued that China, as the world's fastest-growing economy, should be considered a developed trading power and held to higher standards. China wants to join WTO as a developing country, which would allow it to gradually phase out tariffs and other trade restrictions over a number of years.

"For certain limited purposes, China is a developing country," said U.S. Trade Representative Mickey Kantor. "For almost all other purposes, China is not. It is a major economic power." The U.S. has agreed to be "flexible and pragmatic" about terms, which China can get U.S. support, according to Kantor.

At one point during the often-tumultuous discussion, the U.S. has threatened to impose punitive tariffs of up to 100 percent on a wide range of Chinese goods unless the Chinese government does more to prevent commercial privacy of U.S.-copyrighted products.

"American companies are suffering tremendous losses annually to piracy in China," according to Kantor. "This cannot continue. It is critical that China demonstrate serious resolve to eradicate rampant piracy."

The Chinese government, in reaction to the U.S. threat, warned that it would have "no choice" but to retaliate with its own punitive tariffs on U.S. goods. In addition, they warned of suspending negotiations for joint automobile ventures.

According to 1994 U.S. government figures, China had sent $32.4 billion worth of goods to the U.S. through October, while U.S exports to China during the same period totaled only $7.8 billion. The resulting $24.6 billion trade imbalance is a growing concern for U.S. officials.

The U.S. formally notified China in June 1994 that it wanted China to take a firm stand against illegal piracy of U.S.-copyrighted and patented properties such as U.S. movies, computer programs, and music recorded on compact discs and cassette tapes. Several U.S. business organizations suggest that the flagrant copying of products in China is detrimental to American business interests in China and around the world.

American merchants lose an estimated $800 million in lost sales each year. According to Ken Wasch, executive director of the Software Publishers Association, software piracy "continues unabated in China" because Beijing has refused to prevent or deter copyright infringement. In addition, Wasch said, pirated material is

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Travel agents file antitrust suit

The American Society of Travel Agents (ASTA) has filed suit in U.S. District Court against the seven major carriers, alleging a conspiracy in violation of federal antitrust laws. The dispute stems from attempts by airlines to set caps on commissions earned by U.S. travel agents. Presently, ASTA has 32,000 member agencies.

In February 1995, Delta Airlines revamped the commission rate paid to travel agents for selling domestic tickets. The airline replaced the standard 10 percent commission, which had been in effect since 1981, with a two-tiered commission cap. The new rate of commission is $50 on round-trip tickets priced above $500 and $25 on one-way tickets priced above $250. Travel agents, however, still earn a 10 percent commission on low-priced tickets not covered by the cap.

Shortly after Delta's announcement, American Airlines, Continental Airlines, Northwest Airlines, TWA, USAir, and UnitedAirlines announced new commission rates similar to Delta's.

Textiles and clothing imports to gain greater access

The United States and India recently reached an agreement to encourage more importing and exporting of textiles and clothing. Under the agreement, India will open the Indian market to U.S. products by easing tariffs on textiles and clothing. In return, India will gain greater access to U.S. markets, which already represents a considerable portion of India's textile and apparel exports. "This agreement means that our textile trade can take place on a fair, stable and more long-lasting basis," said U.S. Trade Representative Mickey Kantor.

Although some U.S. manufacturers have voiced concerns over the effects of the agreement, the American Textile and Manufacturers Institute (ATMI) is supporting the accord. They are particularly concerned that the agreement may result in a flood of Indian goods. But, according to a statement by ATMI, "the Indian market, which is larger in total than the U.S. market, offers our industry the opportunity to increase exports significantly, thereby offsetting some of the adverse impact of increased imports as U.S. textile and apparel quotas are liberalized."

The agreement is especially welcome by the Indian government in light of last year's controversy concerning rayon skirts. The Consumer Product Safety Commission (CPSC) ordered an immediate halt to all sales and a recall of certain rayon skirts made in India that ignite easily and burn faster than newspaper. The recall was the largest clothing recall ever.

The popular skirts, made of either rayon or a rayon/cotton blend, have been sold nationwide by many large, well-known retailers, as well as small boutiques. The CPSC banned the skirts for over a month until the Indian government established a testing and certification program to ensure safety. Presently, all rayon skirts imported from India comply with U.S. flammability standards.

FTC regulations target telephone marketing scams

Recently, the Federal Trade Commission (FTC) proposed sweeping new rules that would target deceptive telemarketing practices. Consumers lose at least $40 billion per year to unscrupulous telemarketers according to attorney David Torok of the FTC's consumer protection bureau.

Under the proposed rules, telemarketers would be required to identify themselves and the company they represent. Furthermore, callers must state at the outset that they are selling goods or services. They would also be banned from calling before 8 a.m. or after 9 p.m., and must obtain a consumer's written permission in order to credit or debit a checking account. In addition, telemarketers are prohibited from calling consumers back to sell the same product within three months, and is forbidden from calling back if the consumer so states. Also, before seeking payment, telemarketers must obtain a written acknowledgment from consumers, and are prohibited from dispatching couriers to pick up payment from consumers before services are rendered.

The proposed rules "would give some time for the consumer to think about" telephone purchases, said Torok. "[O]ne of the most important aspects of these rules will be to educate consumers — that's the first line of defense," he said.

"I think these regulations are to make sure that consumers do not lose confidence in engaging in (legitimate) telemarketing," said Torok.

The regulations are still subject to modification and would be the first by the FTC to deal specifically with telemarketing. "The crooks have moved into telemarketing in droves," said Eileen Harrington, assistant director of marketing practices in the FTC's bureau of consumer protection. "The volume of consumer injury from fraudulent calls is enormous and has grown dramatically over the last decade," she said.

The proposed rules cover most types of telemarketing calls, including offers of goods and services, business ventures and investment offers, certain "telefunding" or solicitations for charities involving sweepstakes or other prize-giving contests.

The regulations would also apply to calls from consumers, such as those made in response to postcards

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New office to investigate airlines and promotions

The U.S. Department of Transportation announced a new consumer protection office that will investigate airlines and their advertisements. Some airline ads, such as those that list one-way fares but require travelers to buy a return ticket, will be subject to very close scrutiny, according to Transportation Secretary Frederico Peña.

Other airline marketing practices will also be monitored, including "two-for-one" fares that usually require travelers to buy a ticket at a price above the advertised discount fare. In addition, the department will examine promotions in which only a few seats are available at the sale price, frequent-flyer programs, airline overbooking passengers for certain flights, and whether airlines are in compliance with rules ensuring that travelers with disabilities have access to travel.

Peña described the program as "going beyond issues of consumer satisfaction to focus more on consumer protection." Many consumers complain that airline advertisements and promotions are often deceptive, misleading, or confusing.

Presently, the department is investigating at least a dozen airlines for deceptive advertising. "Consumers expect seats to be available at advertised prices," said Peña. "They expect seats to be available in the frequent-flyer program in which they participate."

Airlines, however, have never been required to disclose how many seats they set aside for free travel by frequent fliers. Industry analysts estimate 6 percent to 8 percent.

Most airlines insist they are giving out more free trips than ever before. For example, USAir expects to issue 1.3 million award trips this year, an increase of 50 percent over last year. Similarly, United Airlines gave 1.9 million bonus trips last year, an increase from 1993's 1.6 million trips.

Already, the department has directed Iberia Airlines of Spain, TAP Air Portugal, and Atlantic Coast Airlines, which operates as United Express, to correct price advertisements that did not fully disclose certain add-on charges.

FTC investigates telephone scams

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or other promotional materials they receive. In addition, business-to-business sales calls would be covered. The rules, however, would not apply to catalogs, opinion polls, and telemarketing groups not involved in commercial transactions.

Presently, federal law prohibits unfair and deceptive trade practices. The new rules will specifically address telemarketing abuses. The regulations will be the FTC's first to tackle phony sales calls. The new rules will be enforceable by both the FTC and state attorneys general and should strengthen the ability of state attorneys general to sue firms in federal court and obtain nationwide rulings.

Apparently, many fraudulent telemarketers operate a telephone "boiler room" in one state and call other states in order to escape scrutiny and prosecution, according to Wisconsin Attorney General James E. Doyle. "One night they'll call a county in Georgia, the next night a county in Wisconsin, and the night after that hit Washington state," he said. "The attorneys general of three would have a tough time getting at them before. Now we can get at them."

Each violation would be punishable by a fine of up to $10,000 per incident. In the past, the FTC had the ability to seek court injunctions against fraudulent telemarketers, but never had the ability to ask for fines.

"The volume of consumer injury from fraudulent calls is enormous and has grown dramatically over the past decade," said Eileen Harrington of the FTC.

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shipped abroad and hurts U.S. interests in markets worldwide.

Similarly, Jay Berman, chairman and chief executive of the Recording Industry Association of America, estimates the U.S. sound recording industry lost an estimated $345 million in 1993 due to "rampant piracy." In addition to the millions of illegal compact discs being sold in China, Berman said his organization believes "even larger quantities are being exported abroad."

According to a senior U.S. trade official, there are 29 factories in China with the capacity to make 75 million pirated compact discs, which is 15 times China's legitimate domestic demand for CDs. The remainder are most likely being smuggled abroad.