

## **Sanjiaozhou Industrial Development Co., Ltd.**

1446<sup>th</sup> Commissioners' Meeting (2019)

Case: Sanjiaozhou Enterprises violated the Multi-level Marketing Supervision Act while engaging in multi-level marketing

Keyword(s): Product item, sales system, written participation contract

Reference: Fair Trade Commission Decision of July 24 (the 1446<sup>th</sup> Commissioners' Meeting); Disposition Kung Ch'u Tzu No.108035

Industry: Direct Selling Establishments (4872)

Relevant Law(s): Articles 7 and 14 of the Multi-level Marketing Supervision Act

### Summary:

1. Sanjiaozhou Industrial Development Co., Ltd. (hereinafter referred to as Sanjiaozhou Enterprises) registered with the FTC on September 15, 2016 as a multi-level marketing business to sell cleaning products, water filters, and water dispensers, and so on. There were 14 items in total. On September 26, 2018, the FTC's staff members visiting the main office of Sanjiaozhou Enterprises for business inspections found out that the company had marketed the Toru Earthworm Fibrinolytic Enzyme and other products, as well as organized incentive tours for participants without filing with the FTC in advance. The conduct was in violation of Article 7 of the Multi-level Marketing Supervision Act. At the same time, the company's participation contract also did not include statutorily required information and it was in violation of Article 14 of the same Act. Therefore, the FTC launched an investigation.

### 2. Findings of the FTC after investigation:

The FTC requested Sanjiaozhou Enterprises to present a written statement and to give its oral statement at the FTC.

### 3. Grounds for disposition:

(1) Sanjiaozhou changed its product items and sales system without filing with the FTC in advance. It was in violation of Article 7 of the Multi-level Marketing Supervision Act.

A. Sanjiaozhou Enterprises began to market the Toru Earthworm Fibrinolytic Enzyme, fish scale collagen protein, lactic acid bacteria, hydrogen-rich water maker, and high fluctuation refreshing water dispensers on June 25, 2018. Since the products did not sell well, the company stopped selling them after the FTC's business inspections on September 26, 2018. However, Sanjiaozhou Enterprises started to market healthy mineral energy water purifiers and healthy  $\pi$  energy water purifiers on September 25, 2018 but did not file with the FTC until October 17, 2018. The company admitted that it had failed to file the aforesaid product items with the FTC beforehand and it was in violation of Article 7(1) of the Multi-level Marketing Supervision Act.

B. Meanwhile, Sanjiaozhou Enterprises organized special offer LOHAS tours, sold three tubes of coconut oil toothpaste for the price of two, and established regulations with regard to consultant performance and issuance of awards

between July and September in 2018. As the above constituted giving economic benefits and bonuses to participants, it was part of the sales system. Therefore, the company should have filed with the FTC in advance. Sanjiaozhou admitted that it had failed to file with the FTC before conducting such activities and it was in violation of Article 7(1) of the Multi-level Marketing Supervision Act too.

- (2) The contract Sanjiaozhou Enterprises signed with participants did not include statutorily required information. It was in violation of Subparagraph 1 of Article 14 of the Multi-level Marketing Supervision Act:

Sanjiaozhou Enterprises confessed that it had only given a copy of the “Partnership Application and Contract” (hereinafter referred to as the contract), which included the participant management guidelines, to each participant joining the company. As for the participant operation regulations, they were placed at the counter of each office for participants to flip through on the spot. The contract merely included outlines of multi-level marketing regulations, the sales system, matters related to the products or services, and product value depreciation. The above did not carry a complete description of the sale system, multi-level marketing regulations, full information with regard to products or services, and provisions set forth in the second section of Article 21(3) and Article 24 of the Multi-level Marketing Supervision Act concerning the approaches, standards and reasons to calculate value depreciation to be deducted from products or services the company would buy back. Furthermore, participants still had to read the “participant operation regulations” the company filed with the FTC in order to fully understand the statutorily required information specified in Article 14 of the Multi-level Marketing Supervision Act. In other words, Sanjiaozhou Enterprises violated Article 14(i) of the Multi-level Marketing Supervision Act by signing and giving participants a contract that did not include statutorily required information.

- (3) After assessing the motive and purposes behind the unlawful act, the inappropriate profit expected, the level of harm to the trading order on the market, the duration of the unlawful act, the profit gained, the business scale and management condition of the company, the type and number of past violations and the penalties received, the level of remorse and cooperativeness throughout the investigation, the FTC, citing the first section of Article 34 of the Multi-level Marketing Supervision Act, imposed an administrative fine of NT\$100,000 on the company for violating Article 7(1) of the Multi-level Marketing Supervision Act and NT\$50,000 for violating Article 14(i) of the same law. The fines totaled NT\$150,000.

Appendix:

Sanjiaozhou Industrial Development Co., Ltd.’s Uniform Invoice Number: 59252635

Summarized by: Tseng, Huei-Yi; Supervised by: Hsieh, Hsiu-Lin □