

October 24, 2011

Submitted Online

Federal Trade Commission Division of Marketing Practices Bureau of Consumer Protection, H-286 600 Pennsylvania Ave., NW Washington, DC 20580

Re: Magnuson-Moss Warranty Act Rule Review, 16 CFR Part 700, P114406

Dear Sir/Madam:

These comments are submitted in response to the Federal Trade Commission (FTC)'s request for public comments as part of its systematic review of its Interpretations of the Magnuson-Moss Warranty Act (76 Fed. Reg. 52596; August 23, 2011). As the national representative for the small business fast lube industry, which includes approximately 16,531 facilities, the Automotive Oil Change Association (AOCA) urges FTC to revise its Interpretations to better protect consumers from certain deceptive warrantor practices that have developed over the past decade.

AOCA Background

AOCA represents the fast lube industry, a large nationwide network of automotive service professionals focused on achieving the highest levels of technician training and customer service, and the provision of quality products. Since 1987, AOCA member fast lubes have provided quality automotive services with special emphasis on convenient, fast, and economical oil changes. Virtually all of AOCA's members are classified as small businesses according to Small Business Administration size standards.

The Fast Lube Industry

The fast lube industry plays a major role in the auto maintenance delivery system, providing an estimated 118 million oil changes annually in the United States alone. The estimated 16,531 facilities involved purchase more than \$4 billion in products annually from oil companies, filter manufacturers, computer and software manufacturers, and additive manufacturers. In order to implement the services associated with these products, the fast lube industry employs nearly 100,000 men and women with an estimated payroll of \$2.5 billion.

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Among the various businesses that comprise the automotive maintenance sector, the fast lube industry has the distinction of servicing a large percentage of the motoring public, covering by necessity all automobile makes and models, while operating on small margins. Consumers rely on fast lube service because of a simple cost/benefit analysis: regular oil changes—and the routine safety checks that go with them—are the best and least expensive way to keep a vehicle in good working condition. Fast lubes are able to keep the service affordable to the average American because of streamlined operations combined with customer volume and the reasonable cost keeps customers coming back on a consistent basis.

Summary

As a member of the Uniform Standards in Automotive Products Coalition (the "Coalition"), AOCA incorporates by reference their comments and urges the FTC to make three simple clarifications to its Interpretations in order to give full effect to the Magnuson-Moss Warranty Act (MMWA)'s anti-tying provision as well as FTC's related December 2010 Consumer Alert entitled *Auto Warranties, Routine Maintenance, and Repairs: Is Using the Dealer a Must?*

Specifically, AOCA urges FTC to:

- 1. Amend Section 700.10(c) of the Interpretations to include "indirect" as well as direct conditioning practices, as is currently required under the Clean Air Act;
- 2. Require automotive warranties to include a plain English anti-tying disclosure, similar to the disclosure already required of automotive warranties under the Clean Air Act, and modeled directly upon language approved by the FTC in its Consumer Alert; and
- 3. Require automobile manufacturers and/or their agents to put warranty denials in writing, including the specific reason(s) for denial and any MMWA-required proof associated with the specific reason(s) for denial.

By taking these small but crucial steps, the FTC will ensure that consumers have actual, as opposed to *theoretical*, notice of their rights and the assurance that warranty coverage will not be denied improperly.

Indirect Communication that Achieves the "Tying" Result

There are many ways to convince consumers that failure to use automobile manufacturer-authorized parts and services will void and/or pose an insurmountable case for voiding an entire engine warranty. Unlike automobile manufacturers, the average consumer has no legal department providing ready advice for navigating the intersection of MMWA requirements, caveat emptor, and potential trade libel. Nor does the average consumer have access to product development data in order to scrutinize automobile manufacturers' proprietary product claims or an automotive services department to challenge their allegations of engine damage when the

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consumer rightfully chooses not to use proprietary products. This disparity in bargaining position places consumers at a significant disadvantage when it comes to aggressive manufacturer warranty-related marketing practices. Add to this the burdens associated with America's current recession and the result is millions of consumers unable to withstand the manipulative, often fear-based tactics designed to pressure them into using manufacturers' expensive proprietary products. The average consumer simply can't afford to lose warranty coverage for major repairs and the automobile manufacturers know it.

FTC's current Interpretations outline the most obvious phrase that could be used to communicate a tied product requirement:

"This warranty is void if service is performed by anyone other than an authorized `ABC' dealer and all replacement parts must be genuine `ABC' parts," and the like, are prohibited where the service or parts are not covered by the warranty. (16 CFR 700.10(c))

Less direct but equally powerful language used to effect a tied product result includes (1) unilateral declarations of manufacturer's absolution from warranty responsibility without regard for the manufacturer's burden of proof under MMWA, (2) references to ultimate warranty-controlling authority without regard for the anti-tying prohibition under MMWA, (3) unsubstantiated product comparisons, (4) command form direction, (5) phrases that give rise to unavoidable negative implications regarding aftermarket products and services, and (6) non-synonymous alternative descriptions of the manufacturer's burden of proof that erode the MMWA standard. All of these linguistic tactics are found in the following current examples from the automotive marketplace:

American Honda's new vehicle warranty and replacement parts warranty do not apply to any part which is not purchased from an authorized US Honda dealer. American Honda will not be responsible for any subsequent repair costs associated with vehicle or part failures caused by the use of parts other than Honda Genuine parts purchased from an authorized US Honda dealer." (Honda Bulletin issued August 20, 2010)

In order for Honda's communication to not deceive consumers as a unilateral declaration of absolution from warranty responsibility without regard for Honda's burden of proof under MMWA, the communication would have to be amended to add "that it can prove were" between 'failures' and 'caused' so that the new sentence read: "American Honda will not be responsible for any subsequent repair costs associated with vehicle or part failures that it can prove were caused by the use of parts other than Honda Genuine parts purchased from an authorized US Honda dealer." How does AOCA know that consumers would otherwise be confused into a product tying effect by Honda's communication? Honda vehicle car counts dropped seventy percent at fast lubes nationwide after Honda issued this communication.

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Unlicensed products have not gone through GM's rigorous testing process, are not monitored for quality, and are not approved or recommended for use in GM vehicles. Unlicensed product quality and suitability for GM vehicles cannot be guaranteed and, therefore, use of unlicensed products may result in lower levels of performance and engine damage not covered under warranty. (www.gmdexos.com)

In order for GM's communication to not deceive consumers as a reference to ultimate warranty-controlling authority, consumers would have to first know the text of the MMWA and then understand that no matter the authority-provoking words employed—in this case 'unlicensed,' 'approved' and 'recommended'—the automobile manufacturer's claims do not supersede the anti-tying prohibition under MMWA. Consumers would also have to recognize that GM omitted any reference to its burden of proof regarding 'engine damage not covered under warranty.' The likelihood of an average consumer making this kind of ivory tower analysis is unlikely. Authority-provoking language is used for a very specific reason: because it is very effective at promoting compliance regardless of accuracy. AOCA's recent fast lube industry survey shows consumers agree: New GM vehicle car counts at fast lubes have dropped eighty percent since GM began issuing communications like the one cited here.

GM's statement also contains an unsubstantiated negative product comparison regarding non-GM-licensed motor oil not being "monitored for quality." Of course, GM cannot vouch for other manufacturers' practices, but would the average consumer recognize the problem and know that they should ignore GM's assertion? No.

CAUTION: Use only Genuine NISSAN Matic ATF specified here. Do not mix with other fluids. Using transmission fluid other than Genuine NISSAN Matic ATF specified here or its equivalent may cause deterioration in drivability and automatic transmission durability, and may damage the automatic transmission, which is not covered by the NISSAN new vehicle limited warranty. (Nissan Service Bulletin NTB08-049b)

In order for Nissan's communication to not deceive consumers into believing that Nissan's proprietary fluid is mandated under warranty, they would have to know about their rights under MMWA and then understand that use of command form language—in this case 'Use only Genuine NISSAN Matic ATF'—does not mean that Nissan has authority to contravene the antitying provision of MMWA. They would also have to understand that the modifier 'may' in the phrase 'may cause deterioration' makes what appears to be a threatening prediction so broad as to be virtually meaningless; i.e., within the limitless category of possibility.

Additionally, since the Nissan communication begins with the all-caps warning term "CAUTION," it is even less likely that the average consumer would somehow interpret this otherwise scary, command-form edict as something not allowed to be more than a suggestion under MMWA and about which Nissan bears the entire burden of proof. AOCA member

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customers have already borne the brunt of this manipulative communication in having their warranties voided for use of non-Nissan ATF without any demonstration of proof that the non-Nissan ATF caused engine damage. (See Attachments)

Current Internet and Television advertisements for various automobile manufacturers' agents make this identical claim: "When you go to a certified dealer for service, your vehicle's warranty stays intact," while onscreen a matching message appears in large letters: YOUR VEHICLE WARRANTY STAYS INTACT.¹

This type of communication uses the unavoidable negative implication angle against non-automobile manufacturer-certified service facilities. In order for the phrase to have any inherent value to consumers, there must be an opposite result; i.e., consumers' warranties will <u>not</u> stay intact with non-certified dealers/service facilities. Since consumers aren't experts at MMWA interpretation, they don't know that the negative implication created in the advertisements has no foundation or that the MMWA specifically protects consumers' right to choose their service and repair professional while maintaining their warranty coverage.

IRVINE, Calif. (August 12, 2011)

Only Genuine Mazda Parts purchased from an authorized Mazda dealer are specifically covered by the Mazda warranty. The original warranty could become invalid if aftermarket parts contribute to the damage of original parts.²

As explained in a recent joint-trade association complaint to FTC, Mazda's release actually attempts to erode the manufacturer's burden of proof under MMWA. The MMWA manufacturer's burden of proof is not that it need merely show an aftermarket part "contributed" to the damage of original parts, but that it "caused" any alleged damage. Contribution is a lesser standard by language and effect; how does one prove contribution and how much contribution is necessary to void the consumer's warranty? One percent? Fifty percent? Seventy-five percent? And though Mazda need not guarantee another manufacturer's parts individually, their reference to the "original warranty" becoming invalid from the use of aftermarket parts refers to the whole vehicle warranty, not any guarantee specific to individual parts. The average consumer would take this statement to mean that should they use an aftermarket part, it is not only possible, but likely that their warranty would be voided if there is a problem with the vehicle.

² http://www.mazdausamedia.com/content/mazda-recommends-use-genuine-mazda-parts. Press Release Contact Information: Vice President, Hill and Knowlton, Inc., Eric Booth; eric.booth@hillandknowlton.com.

¹ <u>http://www.break.com/usercontent/2011/4/17/honda-fast-lube-service-center-san-diego-ca-2045459;</u> http://www.metacafe.com/watch/7236679/matteson_il_hyundai_discount_oil_change_service/.

³ Letter to Lois Griesman dated October 21, 2011, and signed by the Automotive Oil Change Association, the Automotive Aftermarket Industry Association, the Tire Industry Association, and the Service Station Dealers Association of America.

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The Need for Including MMWA Rights in All Warranty-Related Communications

As explained above with regard to each instance of a warrantor's use of manipulative, highly prejudicial language, the average consumer can't possibly be expected to decipher what is and isn't lawfully required to maintain warranty coverage without having actual knowledge of MMWA. Although AOCA is grateful for FTC's publication of the consumer alert bulletin entitled "Auto Warranties, Routine Maintenance, and Repairs: Is Using the Dealer a Must?" and believes that the bulletin will be very helpful to those consumers who are lucky enough to come across it, the existence of the bulletin is not enough to ensure consumers have actual knowledge of their rights when they need it most. Rather, the best time and place for a notice of consumers' rights under MMWA is one that is contemporaneous with manufacturers' explanation of warranty coverage; i.e., within any communication that conveys warranty coverage and any consumer action necessary to maintain that coverage, including any way in which said coverage could be lost/denied/voided.

The Need for Written, Fact-Based Explanations Prior to Warranty Coverage Denial

As described above, providing notice of MMWA-related protections to consumers within warranty documents and related communications would significantly increase consumers' ability to understand and enforce their own rights. That said, even those forewarned consumers who attempt to enforce their own rights would not get far⁴ absent FTC direction or acknowledgment regarding the basic need for automobile manufacturers to meet their burden of proof in warranty coverage denials; hence, the recommendation for written, fact-based explanations.

Let's consider again the basic prohibited phrase from 16 CFR 700.10(c):

"This warranty is void if service is performed by anyone other than an authorized `ABC' dealer and all replacement parts must be genuine `ABC' parts," and the like, are prohibited where the service or parts are not covered by the warranty.

According to the full text of that Interpretation, such an approach violates the MMWA section 102(c) ban against tying arrangements—for obvious reasons—but it is also considered *deceptive* under section 110 because the manufacturer is circumventing its requirement to "demonstrate that the defect or damage was so caused" by the non-manufacturer parts and/or service. If making a written warranty-related statement that circumvents the burden of proof is deceptive, then surely warrantor behavior that circumvents the burden of proof is also deceptive. And that is the current primary problem with real world application of MMWA for automotive consumers: automobile manufacturers and their agents don't provide proof that non-

⁴ One significant indication of a successful consumer rights program is whether consumers are able to obtain their lawful rights <u>without</u> professional legal assistance. Currently, automobile manufacturers and their agents may require a consumer to enter into arbitration and/or litigation over warranty coverage for engine damage they simply allege to be caused by the use of non-MANUFACTURER-authorized parts and/or service.

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manufacturer-authorized products and services cause engine damage prior to or in conjunction with denying warranty coverage on the basis of using aftermarket products and services.

An example of this problem occurred recently in conjunction with the previously mentioned Nissan proprietary ATF requirement. A fast lube customer's warranty was voided by an automotive repair facility on the sole basis of the fast lube having used a non-Genuine Nissan ATF; no explanation or description was provided other than a copy of Nissan's Service Bulletin NTB08-049b, and a notation on the repair estimate that "NOT NISSAN" fluid was used accompanied by the handwritten conclusory statement: "WARRANTY IS VOIDED 9-26-11" (See Attachments). The repair facility provided no proof of any damage caused by the non-Genuine Nissan ATF, and this is typical of consumers' experiences in situations like these.

One excuse for this deceptive behavior may be that nothing in the MMWA regulation or FTC Interpretations specifies that providing consumers with written, fact-based explanations for warranty coverage denials is required for automobile manufacturers and their agents to meet their burden of proof prior to or in conjunction with warranty coverage denials based on the theory that a non-manufacturer-authorized part or service was used, although AOCA submits that the ultimate conclusion of that step being necessary is inescapable. There is no way to meet a 'burden of proof' without offering evidence capable of examination.

Another excuse for this deceptive behavior may be that the automobile manufacturers simply can't meet their burden of proof in these types of situations. An automobile manufacturer's denial of warranty coverage based on the allegation that a consumer's use of motor oil not authorized or licensed by the manufacturer caused engine damage is a perfect example. AOCA has never found evidence of a single case demonstrating that a non-manufacturer-authorized or licensed motor oil caused engine damage.

"In twenty-three years, I have never seen motor oil damage an engine. It's always a mechanical problem. Lack of motor oil will cause a problem, but not a difference in brand." (Dr. R. Scotti Lee, Vice President of Technical Support, Oil Changers, Inc.; Former President and Operator of Oil Change Express 1987-2010)

Even if a particular type of motor oil alone could cause engine damage, a complete engine "tear down" or dismantling would be required to properly investigate the matter and provide proof one way or the other.

Last but not least is the 'elephant in the room:' obtaining the proof required by the MMWA prior to or in conjunction with denying warranty coverage on the basis of a consumer having used a non-manufacturer product or service won't be free. Minimally, it will require an experienced technician's time to complete the investigation process and document it. However, the MMWA doesn't limit the manufacturer's obligation to that which is cheap and easy. If automobile

⁵ The Nissan Service Bulletin states: "CAUTION: Use only the Genuine NISSAN Matic ATF specified here."

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manufacturers choose to deny warranty coverage to consumers for using aftermarket parts and services, then they are also choosing to accept the cost involved in proving those products and services caused any damage alleged.

None of the excuses outlined above are lawful reasons for automobile manufacturers and their agents to continue to ignore the burden of proof requirement in connection with aftermarket product and service-based warranty coverage denials. Moreover, a simple solution exists; one that can eliminate the need for written, fact-based warranty denials and any cost associated with producing evidence for them on a case by case basis: Automobile manufacturers who claim their proprietary products are superior and want to mandate their use (directly or indirectly) can apply to FTC for a waiver under the MMWA by showing that only their proprietary products will allow proper engine function and achieve the necessary performance characteristics.

Conclusion

AOCA urges FTC to recognize the real world impact of automobile manufacturers' semantic warfare on average consumers: individuals who are not legal experts and have no ability to stand toe-to-toe with giant corporations. America's consumers need their warranty coverage for major repairs now more than ever, but they are being consistently subjected to marketing messages that create confusion over how to maintain it. FTC has the ability to clarify and otherwise promote via simple, cost-effective methods the ample consumer rights that already exist within the MMWA, and AOCA sincerely hopes that it will do so.

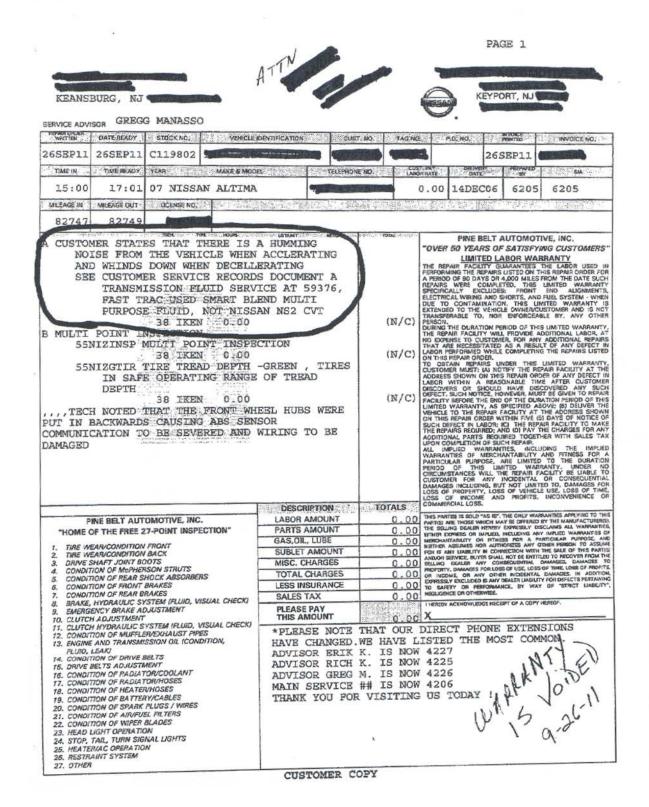
AOCA very much appreciates this opportunity to submit comments to FTC regarding its Magnuson-Moss Warranty Act Interpretations. If you have any questions or concerns about this submission, please contact AOCA at (800) 331-0329.

Sincerely,

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Patricia A. Wirth AOCA President

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Technical Bulletin

HARRAM MORTH AMERICA, INC. Copyright (C

SERVICE BULLETIN

Classification

AT07-006b

deference:

NTB08-049b

March 13, 2009

NISSAN; SPECIAL AUTOMATIC TRANSMISSION FLUID REQUIREMENT

This bulletin has been amended to update Parts Information and Applied Vehicles.

Please discard all earlier versions.

APPLIED VEHICLES:

All 2002 to Current Vehicles with Automatic Transmissions

(Except GT-R)

SERVICE INFORMATION



If Warranty repairs are being done on a transmission listed in the chart on page 2, the listed fluid must be used. A <u>claim</u> to Nissan for warranty, service <u>contract</u>, or <u>goodwill</u> repairs to the transmissions listed below <u>may be denied if Genuine Nissan ATF/CVT/eCVT Fluid is not used as specified by the part number in this bulletin.</u>



If Customer Pay service or repair of the transmissions listed below is done, the fluid type listed in the chart on page 2 must be used. Nissan recommends the Genuine Nissan ATF/CVT/eCVT fluid part number listed in Parts Information be used.

1800 NJSSAN1

Nissan Bulletins are intended for use by qualified technicians, not 'do-it-yourselfers'. Qualified technicians are properly trained individuals who have the equipment, tools, safety instruction, and know-how to do a job properly and safely. NOTE: If you believe that a described condition may apply to a particular vehicle, DO NOT assume that it does. See your Nissan dealer to determine if this applies to your vehicle.

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PARTS INFORMATION

A/T DESCRIPTION	FLUID TYPE	FLUID DESCRIPTION	PART#
CVT	NS2 (1)	Nissan CVT Fluid NS-2	999MP-NS200P
4 SPD FWD	Matic D (4)	Nissan Matic D	999MP-AA100P
4 SPD RWD	Matic D (4)	Nissan Matic D	999MP-AA100P
5 SPD FWD	Matic K (2)	Nissan Matic K	999MP-MTK00P
5 SPD RWD	Matic S (2) Matic J (2)	Nissan Matic S (3) Nissan Matic J	999MP-MTS00P 999MP-MTJ00P
7 SPD RWD	Matic S (4)	Nissan Matic S	999MP-MTS00P
Altima Hybrid Transaxle (eCVT)	Matic W (4)	Nissan Matic W	999MP-MTW00P

NOTE: Nissan ATF/CVT/eCVT Fluid and all chemicals are ordered through the Nissan Direct Ship Chemical Care Product Program: Phone 1.800.811.0502, Fax 1.770.218.0148, Website order link via dealer portal www.NNAnet.com or order direct www.NissanChemicals.com.

- (1) CAUTION: Use only Genuine NISSAN CVT Fluid NS-2. Do not mix with other fluids. Using transmission fluid other than Genuine NISSAN CVT Fluid NS-2 will damage the CVT transmission, which is not covered by the NISSAN new vehicle limited warranty.
- (2) CAUTION: Use only the Genuine NISSAN Matic ATF specified here. Do not mix with other fluids. Using transmission fluid other than the Genuine NISSAN Matic ATF specified here or its equivalent may cause deterioration in drivability and automatic transmission durability, and may damage the automatic transmission, which is not covered by the NISSAN new vehicle limited warranty.
 - (3) Use Matic J if Matic S is not available.
 - (4) CAUTION: Use only the Genuine NISSAN Matic Fluid specified here. Do not mix with other fluids. Using transmission fluid other than the Genuine NISSAN Matic ATF specified here may cause deterioration in drivability and automatic transmission durability, and may damage the automatic transmission, which is not covered by the NISSAN new vehicle limited warranty.