PART 13—PROHIBITED TRADE PRACTICES, AND AFFIRMATIVE CORRECTIVE ACTIONS

Uncle Ben's, Inc., et al.

AGENCY: Federal Trade Commission.

ACTION: Order to cease and desist.

SUMMARY: Consent order requiring a Houston, Texas, producer and distributor of food products, and its New York City advertising agency, among other things, to cease disseminating advertisements which depict or portray children coming close to foods in the process of being cooked, or attempting to cook foods themselves, without close adult supervision, or any other advertisements which may have the tendency to influence children to engage in behavior inconsistent with recognized safety practices.

DATES: Complaint and order issued February 23, 1977.


SUPPLEMENTARY INFORMATION: In the Matter of Uncle Ben's, Inc., a corporation, and Rosenfeld, Sirolowski & Lawson, Inc., a corporation. The prohibited trade practices and/or corrective actions, as codified under 16 CFR Part 13, are as follows:

1. The term "commerce" means commerce as defined by the Federal Trade Commission Act, as amended.
2. The term "food" means any article used for food or drink for man or other animals.
3. The term "cooking" shall mean a process of food preparation which includes the application of heat.
4. The term "child" shall mean a person who appears to be or in fact is under the age of 12.

It is ordered, That respondents Uncle Ben's, Inc., a corporation, and Rosenfeld, Sirolowski & Lawson, Inc., a corporation (hereinafter referred to as respondents), their successors and assigns, and their officers, agents, representatives and employees, directly or through any corporation, subsidiary, division or other device, in connection with the advertising, offering for sale or distribution in or affecting commerce of any product, forthwith cease and desist from, directly or indirectly:

A. Representing, through depictions, descriptions, or otherwise, children closely examining, or closely approaching, foods or containers of foods which are in the process of being cooked.
B. Representing, through depictions, descriptions, or otherwise, children participating in the process of cooking without close supervision of an adult.
C. Representing, through depictions, descriptions, or otherwise, children initiating participation in the process of cooking without close supervision of an adult who is being used in the process of cooking by touching a utensil, glove, pot or other object that is being used in the process of cooking without first having received permission from the adult.
D. Representing, through depictions, descriptions, or otherwise, children without close adult supervision in a kitchen or other area where foods are in the process of being cooked.
E. Representing, through depictions, descriptions, or otherwise, children engaging in activity in a kitchen or in an area where foods are in the process of being cooked where it is reasonably foreseeable, through reasonable inquiry, that such representation has the tendency or capacity to influence children to engage in behavior which creates an unreasonable risk of harm to themselves or to others.

II

It is further ordered, That respondents shall forthwith distribute a copy of this order to each of their operating divisions.

It is further ordered, That respondents notify the Commission at least thirty (30) days prior to any proposed change such as dissolution, assignment or sale resulting in the emergence of a successor corporation, the creation or dissolution of a subsidiary or change in the corporation which may affect compliance obligations arising out of the order.

It is further ordered, That respondents shall, within sixty (60) days after service upon them of this order, file with the Commission a report in writing setting forth in detail the manner and form in which they have complied with this order.

John F. Dunn,
Acting Secretary.
The Commission also determined that it is contrary to the public interest for it to publish notice of proposed rulemaking and for it to receive comment on granting the exemption, including two-party open-end consumer credit contracts and two-party open-end consumer credit contracts, in the Federal Register. Such procedures would result in continued uncertainty about compliance with the Rule for extensions of credit made pursuant to existing twenty-party open-end consumer credit contracts. Commissioner Dole dissenting, stated:

I believe the exemption the Commission today grants for two-party, open-end credit contracts, including two-party credit card arrangements, executed before August 1, 1977, should have been placed on the record for 60 days of public comment. I dissented from the Commission's determination that it is contrary to the public interest to grant the public an opportunity to comment on an action which excludes from the coverage of our Trade Regulation Rule on Preservation of Consumer Claims and Defenses a class of contracts which could involve millions of consumers.

In addition, the Commission has received two petitions for an exemption from the Trade Regulation Rule broader than the one the Commission is issuing. The Commission has no comments on the issues raised by these petitions. The Commission is also soliciting comments on the more limited exemption that has been issued.

STATEMENT OF REASONS FOR EXEMPTION

INTRODUCTION

The Federal Trade Commission has received from the National Retail Merchants Association (NRMA) and the American Retail Federation (ARF) a petition for exemption from § 433.2(a) of the Commission's Trade Regulation Rule Concerning Preservation of Consumers' Claims and Defenses, 16 CFR 433.2(a). An additional petition has been received from the Fingerhut Corporation urging the Commission to accept the NRMA/ARF petition. The petition requests an exemption from the two-party open-end credit contracts used by sellers provided the contracts do not involve the use of negotiable instruments or waivers of claims or defenses, and further provided that sellers wishing to use the exemption agree to adopt certain specified protective measures, including registration with the Federal Trade Commission. A copy of the exemption proposed by NRMA and ARF is appended to this Statement.

The Commission has concluded that the public interest would be served by the issuance of a more limited exemption, effective immediately. This more limited exemption applies only to open end credit contracts, such as charge account master agreements, executed before August 1, 1977. It does not apply to agreements executed after that date. After July 31, 1977, the Rule will apply to all consumer credit contracts executed by sellers. This includes contracts for the extension of credit by means of seller credit cards.

In addition, the Commission is soliciting comments on the public interest would be served by the exemption in the case of open end charge accounts. The Commission's decision to require the Notice in all such contracts is based on the fact that virtually all consumer credit is extended pursuant to form contracts. The costs of including a short notice at places where they are used appear to be minimal. In most cases the Notice can be included in forms which are printed. Where it would be costly to replace existing inventories of forms, the Notice can be added by means of a stamp, a stapled addendum, or similar mechanism.

The above proportions of compliance costs apply primarily to contracts which have not yet been executed. However, different considerations may be present in the case of open end charge accounts where credit is extended from time to time pursuant to a single master agreement. Under such plans, credit extensions subject to 16 CFR 433.2(a) may be made pursuant to a consumer credit contract which was executed before 16 CFR 433.2(a) took effect. Inserting the PTC Notice in such contracts in a manner sufficient to make it legally enforceable may require finding, removing from files, and adding language to large numbers of existing master agreements, and notifying the customers involved, a process which could be more costly than printing the Notice in standard forms to be used in the future.

These cost considerations suggest that it would be desirable to exempt from § 433.2(a) of the Rule open end credit contracts executed before the Rule went into effect on May 14, 1976, provided that such contracts do not involve the use of negotiable instruments or waivers of claims or defenses.

The Commission also understands that there have been misunderstandings about the applicability of 16 CFR 433.2(a) to seller open end credit generally. The existence of these misunderstandings suggests the desirability of extending the exemption for sellers open end credit through to August 1, 1977, to give all sellers the opportunity to come into compliance with the Rule.

Finally, it should be noted that the definition of "open end credit" in the exemption is taken directly from § 226.3(x) of Federal Reserve Board Regulation Z as amended October 28, 1976, except that the definition in the proposed exemption does not contain the language of Regulation Z § 226.3(c)(3) limiting the definition to plans in which a finance charge is computed.

DISCUSSION OF NRMA/ARF PETITION

The exemption issued on this date by the Commission and the exemption proposed by NRMA/ARF apply only to contracts that are not covered by the use of negotiable instruments or waivers of claims or defenses. However, the Commission exemption applies only to open end consumer credit contracts executed before August 1, 1977. The NRMA/ARF proposed exemption is permanently available; and applies to all types of consumer credit contracts used by sellers, including ordinary installment sales contracts.

The NRMA/ARF petition contains a number of arguments for extending an exemption to contracts not covered by the Commission exemption. NRMA and ARF argue that because their proposed exemption is confined to contracts that are not negotiable and do not contain waiver provisions, and because petitioners would agree to elaborate protective measures, including formal registration with the FTC, consumers would not suffer a loss of rights.

In addition, petitioners argue that the present changes in the required Notice in other than open end credit contracts involves significant costs. Petitioners' cost arguments include the following, which are quoted from their petition:

(1) The Rule would require sellers to revise their contracts to include a ten point bold type notice thereon. The notice, of technical nature, would take up a substantial amount of space on the seller's contract forms. Depending upon the particular seller and the document involved, the inclusion of such notice might require a 200% increase in the size of the document. Because contract documents are of a particular size, designed for use in at least two particular typestyles of mechanical and electronic equipment, etc., any change in the size of a contract document could require the seller to incur a significant capital expense for the replacement or alteration of the foregoing.

(2) For these sellers who will be included in the exemption on contract forms without changing the size thereof, there will nevertheless a significant expense to revise such forms. This ex-
Notice is required in particular contracts, such as credit contracts under the Equal Credit Opportunity Act, to inform creditors and other parties of their rights as a basis of the Rule. The requirement makes the Rule easier to enforce and will further reduce the likelihood of consumers losing rights as a result of violations. The requirement has other advantages as well. Creditors can check their credit contracts and systems and know that a business ordinarily assigns its credit contracts. In addition, businesses can explain to customers that the Notice is required by law in all contracts, whether or not they are assigned.

The legal effect of the protective measures set out in petitioners' proposed exemption appear expensive, cumbersome, and possibly unenforceable.

7. The legal effect of the protective measures set out in petitioners' proposed exemption, e.g., “acknowledge (ments) to the Commission * * * that, the notice * * * is an implied term of the consumer contract,” * * * is uncertain.

It should be emphasized that the considerations listed above reflect the staff's initial judgment. The Commission is soliciting public comment on the NRMA/AFR petition and is interested in receiving any information relating to the validity of the listed considerations.

APPENDIX—EXCEPTION OF PERIODIC, PARTNERSHIPS AND CORPORATIONS FROM REQUIREMENT OF 16 CFR 433.2 (A) PROPOSED RULES BY NATIONAL RETAIL MERCHANTS ASSOCIATION AND AMERICAN RETAIL FEDERATION

It shall not be a violation of the Federal Trade Commission's Trade Regulation Rule entitled "Preservation of Consumers' Claims and Defense," 16 CFR 433, for a seller of goods or services, directly or indirectly, to take or receive a consumer credit contract which fails to contain the provision required by 16 CFR 433.2(a) where:

(1) The seller takes or receives a consumer credit contract which: (a) is not a negotiable instrument, and (b) does not contain a provision limiting or waiving the consumer's right to assert against any holder of the consumer credit contract all claims and defenses which the consumer could assert against the seller of goods or services obtained pursuant to such contract or the consumer credit contract; and

(2) The seller acknowledges to the Commission, in a form which may be prescribed by the Commission, that the notice set forth in 16 CFR 433.2(a) is an implied term of the consumer credit contract; and

(3) The seller does not voluntarily transfer, sell, pledge or assignment the consumer credit contract pursuant to which the consumer will be directed to make payment to a person other than the seller, the seller (or a transferee, buyer, pledgee or assignee on behalf of the seller) will void the notice set forth in 16 CFR 433.2(a) (not later than the time when the consumer is notified to make payment to a person other than the seller; and

(4) The seller executes and delivers to the Commission a statement in a form and manner which may be prescribed by the Commission, that (a) the seller intends to avail itself of this exemption from 16 CFR 433.2(a); and (b) the seller will nullify in a timely manner all of the requirements set forth in paragraphs 1 through 4 of this exemption from 16 CFR 433.2(a), to the extent that the seller takes or receives a consumer credit contract which does not contain the notice which would otherwise be required by 16 CFR 433.2(a).

INVITATION TO COMMENT ON EXCEPTON AND ON PETITION FOR EXCEPTION FROM 16 CFR 433.2

All interested parties are hereby notified that they may submit to the Assistant Secretary for Legal Affairs, Federal Trade Commission, Washington, D.C. 20580, written data, views, or arguments on any issues of fact, law or policy, which may have come to their attention:

(1) The exemption from 16 CFR 433.2 as issued by the Commission on this date;

(2) The exemption from 16 CFR 433.2 as proposed in the NRMA/AFR petition;

(3) Any similar possible exemption from 16 CFR 433.2(a) which would not lead to a loss of consumer rights as compared to the original Rule but which might allow the objectives of the Rule to be achieved in a more efficient manner.

The Commission requests that persons commenting on any or all of these three subjects address the following issues:

1. What specific costs occasioned by compliance with 16 CFR 433.2(a) would be lessened by the exemption or any proposed exception? Which consumers receive the same protection against cuts off of claims and defenses under the terms of the exception, or any proposed exception, as under the Rule?

2. Is the language of the exemption, or any pro-
posed exemption, adequate? In what ways could the exemption be improved? (4) Are there any modifications that should be made in the exemption or any proposed exemption? What effect would these modifications have on the answers to questions (1) and (2)? (5) How will the exemption, or any proposed exemption, affect the ability of the Commission to effectively enforce the Rule?

Persons commenting on the exemption issued by the Commission, or any proposed exemption, should be aware that the Commission is considering the following issues: (1) Is the definition of 'open end credit' in the exemption, or any proposed exemption, affected by these modifications? (2) What impact may these modifications have on the answers to questions (3) and (4)? (3) Open end consumer credit contract: a consumer credit contract pursuant to which "open end credit" is extended. (4) Contract which does not cut off consumers' claims and defenses: a consumer credit contract which does not constitute or contain a negotiable instrument, or contain any waiver, limitation, term, or condition which has the effect of limiting a consumer's right to assert against any holder of the contract all legally sufficient claims and defenses which the consumer could assert against the seller of goods or services purchased pursuant to the contract.

Persons commenting on the NRMA/APR proposed exemption are requested to discuss: (1) The arguments for the proposed exemption made in the NRMA/APR petition; and (2) The considerations listed by the Commission in its discussion of the petition in the Statement of Reasons that accompanies the exemption issued by the Commission.

In all comments, the Commission particularly welcomes empirical evidence.

Written comments will be accepted until May 16, 1977. To assure prompt consideration of a comment, it should be identified as an NRMA/APR Exemption Comment and, when feasible and not burdensome, submitted in five copies.

**EXEMPTION**

Accordingly, pursuant to the Federal Trade Commission Act, as amended, 15 U.S.C. section 41, et seq, the provisions of Part I, Subparts B and C of the Commission's Procedures and Rules of Practice, 18 CFR section 1.7, et seq, and section 553 of Subchapter II, Chapter 5, Title 5 of the U.S. Code (Administrative Procedures), the Commission hereby issues the following exemption from 16 CFR Part 433, which will be added to 16 CFR Part 433 as a new § 433.3.

§ 433.3 Exemption of sellers taking or receiving open end consumer credit contracts before August 1, 1977 from requirements of § 433.2(a).

(a) Any seller who has taken or received an open end consumer credit contract before August 1, 1977, shall be exempt from the requirements of 16 CFR Part 433 with respect to such contract provided the contract does not cut off consumers' claims and defenses.

(b) Definitions. The following definitions apply to this exemption:

(1) All pertinent definitions contained in 16 CFR 433.1.

(2) Open end consumer credit contract: a consumer credit contract pursuant to which "open end credit" is extended.

(3) "Open end credit": consumer credit extended on an account pursuant to a plan under which (i) the creditor may permit the customer to make purchases or obtain loans, from time to time, directly from the creditor or indirectly by use of a credit card, check, or other device, as the plan may provide; (ii) the customer has the privilege of paying the balance in full or in installments. The term does not include negotiated advances under an open-end real estate mortgage or a letter of credit.

(4) Contract which does not cut off consumers' claims and defenses: a consumer credit contract which does not constitute or contain a negotiable instrument, or contain any waiver, limitation, term, or condition which has the effect of limiting a consumer's right to assert against any holder of the contract all legally sufficient claims and defenses which the consumer could assert against the seller of goods or services purchased pursuant to the contract.

By direction of the Commission.


**FURTHER INFORMATION CONTACT:**

Captain George K. Greiner, Marine Safety Council (C-GMC/81), Room 8117, Department of Transportation, Nassif Building, 400 Seventh Street SW., Washington, D.C. 20590 (202-426-1477).

**SUPPLEMENTARY INFORMATION:**

The principal persons involved in the drafting of this rulemaking are: LCDR H. E. Snow, Project Manager and Mr. S. D. Jackson, Project Attorney.

This amendment is issued without publication of a notice of proposed rulemaking and this amendment is effective in less than 30 days from the date of publication, because this security zone involves a foreign affairs function of the United States.

In consideration of the foregoing, Part 127 of Title 33 of the Code of Federal Regulations is amended by adding § 127.107, to read as follows:

§ 127.107 Boston Harbor, Massachusetts.

The area within the following boundary is a security zone:

Beginning at the point of position -42°22'07.5" N. latitude, 71°03'15" W. longitude; thence in a northeasterly direction to a Coast Guard marker buoy at position 42°22'13.4" N. latitude, 71°03'09" W. longitude; thence in a westerly direction to a Coast Guard marker buoy at position 42°22'11.2" N. latitude, 71°03'02.9" W. longitude; thence in a southeasterly direction to a Coast Guard marker buoy at position 42°22'06.3" N. latitude, 71°02'59.1" W. longitude; thence in a northwesterly direction to the northern edge of Pier 4 at position 42°22'04'" N. latitude, 71°03'05" W. longitude; extending along the northern face of Pier 4 in a northwesterly direction to position 42°22'01.0" N. latitude, 71°03'05" W. longitude; thence along the seawall in a northwesterly direction to the southernmost boundary of Coast Guard Support Center Boston at position 42°22'02" N. latitude, 71°03'00" W. longitude; thence along the channel property line of Coast Guard Support Center Boston to the point of beginning. No vessel or person may enter, cross, or navigate in the Security Zone without the consent of the Captain of the Port.


O. W. Silber, Admiral, United States Coast Guard Commandant.

[FR Doc. 77-11068 Filed 4-13-77; 8:45 am]

Title 33—Navigation and Navigable Waters

CHAPTER I—COAST GUARD

DEPARTMENT OF TRANSPORTATION

(CGD 77-72)

PART 127—SECURITY ZONES

Security Zone—Boston Harbor, Massachusetts

AGENCY: Coast Guard, DOT.

ACTION: Final rule.

SUMMARY: This amendment establishes a Security Zone around the land area of the Coast Guard Support Center, Boston, Massachusetts and the waters surrounding Piers 1, 2, and 3 of the Coast Guard Base and Support Center. This security zone is established to maintain security in the vicinity of the seized Russian fishing vessel TARAS SHEVCHENKO while in the custody of the United States.

DATES: This amendment is effective on April 11, 1977 and is terminated on June 11, 1977.

FEDERAL REGISTER, VOL. 42, NO. 72—THURSDAY, APRIL 14, 1977