

MEMORANDUM FOR CABINET BY THE MINISTER OF
INDUSTRIAL DEVELOPMENT AND TOURISM (ad int.)

Trading Stamps, their impact on consumer
and small business, and their effect on the
the national economy

The advent of trading stamps companies is an extension of the practice, introduced on a substantial scale in Malta some years ago, of giving presents in exchange for wrappers etc. At the time, and several times later, the Government reviewed the position but because such schemes did not affect the quality of merchandise and it was not anticipated that their abolition would lead to price reduction, no action was taken. This Ministry immediately reviewed the position on the advent of trading stamps companies, and within a few days called in the General Retailers Union as well as the representatives of the original company and the promoters of rival schemes.

Public Opinion

2. In general it can be said that these schemes are viewed favourably by the public, and this popularity is the sole mainspring of their existence and of the outcry raised for their dissolution by retailers who have not been selected to participate in the scheme. It must be said as a caveat, however, that most housewives are certainly harassed thereby but they accept the scheme because of the apparent giving away of something for nothing.

Is such competition beneficial?

3. A trading stamps scheme is one of the means of promoting and advertising a business establishment and is a corollary to stamp schemes which are a direct sales promotion for a particular product.

4. The effect of trading stamps, with the concomitant diverse repercussions on traders left out, may not be too burdensome in a highly competitive manufacturing country where even employers have to compete to secure the services of labour. In Malta, however, the demand for labour is greatly exceeded by supply and the loss of a livelihood or a job may well be permanent and will aggravate the emigration problem.

5. It is a fact that such schemes provide a certain amount of employment. Apart from the fact that such employment is uneconomic and very unfruitful, there is the likelihood of it being offset by those people that may be thrown out of a living through the closing of shops which may be left out of the scheme.

6. Trading Stamps schemes are organised to promote customer patronage at the expense of neighbouring shops who are not parties to the scheme and will result in the closing down of the weakest.

Saturation

7. It may be maintained that any profit-making scheme will entice fresh entrants into the field until saturation is achieved and the status quo ante restored.

8. This is a purely hypothetical situation. What must prompt a retailer to offer stamps is to differentiate his store from that of his competitor and if that fails he will discontinue the scheme. Trading Stamps are effective only when a small percentage of shops use them.

9. It may be said that because of possible diversity in quality and impact, a general practice might possibly develop and continue. However, the stamp plan which starts first and is therefore able to knit together a strong family of neighbouring non-competing retailers will have a very effective advantage on late entrants whose freedom of choice is limited.

Substitute to advertising

10. To date only a very limited number of flourishing stores are carrying out advertising for customer patronage and therefore it cannot be maintained that retailers will only channel their advertising to another form. The expense is therefore a new and additional one which can be translated into a price reduction to general advantage.

Some advantages on the assumption that the gifts are in the main luxury items not normally purchased.

11. (a) Trading stamp companies purchase the gifts for redemption centres from local manufacturers thus stimulating local industries and creating additional employment. Not applicable to Malta so far, through lack of such industries.
- (b) Through bulk buying and elimination of middlemen trading stamp companies can return to the consumer the full value of stamps and yet meet the cost of promotion. Otherwise such cost will be borne by the consumer.
- (c) Catalogues are an extremely powerful advertising medium and stimulate trade of identical items on the shelves of local shops.

Adverse effect on the family budget

12. (a) Stamps are a form of discount extended to the housewife.
- (b) Stamp books in the house are a constant reminder of their existence and have an insidious influence in urging the housewife to keep on spending, which eliminates all sense of thrift.
- (c) Stamp books will entice the housewife to accept small increases in prices, as she is tied down to the scheme by stamps received for past purchases and has to collect more to complete her collection.
- (d) Assuming that a retailer who takes up stamps increases his volume of sales he will have little incentive to cut prices and make further economies when he can survive successfully without price cutting.

Time of launching the scheme

13. At this time retailers are stocking up in preparation for the Christmas shopping, and in a state of uncertainty about the future they will be loth to place orders. This may create an artificial shortage. Besides, the profit made during this season is considered as the motive power which tides retailers over the year.

Other gift schemes

14. In principle, past Governments have been against this form of promotion. However, before the Government is assured that some, at least, of the present benefits are passed to the consumer via price reductions, it is not suggested that these other schemes

be touched, and the proposed legislation carries an appropriate exemption.

Recapitulation

15. (a) Superficially public opinion seems in favour; however, the Government is justified to act against gift schemes because of overriding issues;
- (b) For the moment, and in the hope of getting gift scheme operators to offer reductions in prices for elimination, action suggested is limited to stamps schemes operated by third parties;
- (c) The economic position here warrants protective legislation;
- (d) Freedom of competition will not end in saturation and the re-establishment of the status quo;
- (e) These schemes encourage spending and discourage thrift;
- (f) The cost of such schemes will result in higher prices;
- (g) The timing of the present scheme demands quick action by the Government.

Recommendation

16. At the request of Dr. Felice, the Acting Crown Advocate-General has prepared the attached draft Bill, intended to prohibit the operation of prize-giving schemes upon or connected with the sale of goods, except where such schemes are operated directly and exclusively by an importer, manufacturer or seller in relation to the goods imported, manufactured or sold by such person.

17. It is proposed that the Bill should come into force a month after publication, in order to enable persons in possession of an adequate number of stamps to redeem them and the operators of the scheme to wind up their business.

18. It is recommended that Hon. Ministers should agree that the attached Bill be submitted to the House of Representatives for approval.

19. Before proceeding abroad, Dr. Felice expressed a wish that the proposed legislation be not delayed owing to his absence.

16th October, 1964.

A BILL
entitled

AN ACT to provide for the restricted use of trading stamps schemes and other matters incidental thereto.

ENACTED by the Parliament of Malta:-

Short title
and
commencement.

1. (1) This Act may be cited as the Trading Stamps Schemes (Restriction) Act, 1964.

(2) This Act shall come into force within one month of its publication.

Interpretation.

2. In this Act, unless the context otherwise requires:-

"association of persons" includes any company, partnership or body of persons, whether corporate or unincorporate and whether vested with legal personality or not;

"exempted person" means any promoter or operator of a trading stamps scheme to whom the provisions of this Act do not apply under subsection (2) of section 6 of this Act;

"gift" means a gift in cash or in kind and includes any valuable advantage and any prize the giving of which depends upon the outcome of a future uncertain event or of a combination of future events;

"goods" means anything which is the subject of trade;

"importer" includes an agent having the exclusive representation of a foreign firm for the sale or distribution in these Islands of the goods of that firm or of a local firm for the sale or distribution in these Islands of the goods manufactured by such local firm, and "to import" shall be construed accordingly;

"manufacturer" includes the producer,
and "to manufacture" shall be construed accordingly;

"person" includes an association of
persons;

"seller" means the transferor or assignor
of goods against the payment of any consideration
whether in cash or in kind and includes any party to
the exchange of goods and "to sell" shall be construed
accordingly;

"trading stamp" means any stamp, coupon,
voucher, token, label, wrapper or similar device which
is or is intended to be delivered to any person
or in connection with the purchase by that person of
any goods and is or is intended to be redeemable in
specified quantities by that or some other person
against the receipt of a gift;

"trading stamps scheme" means any scheme,
plan, promise, offer, obligation or similar arrangement
or undertaking by which the purchasers of specified
goods or from specified sellers would be entitled to
receive gifts as an inducement for the purchase of
such specified goods or from such specified sellers
against the delivery of and in exchange for trading
stamps.

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Prohibition to
promote, operate,
or advertise
trading stamps
schemes.

3. (1) No person shall promote or operate or
in any way and to whatever extent assist or take part
in the promotion of a trading stamps scheme.

(2) No person shall issue, distribute,
give or sell or shall in any way be concerned in the
issue, distribution, giving or sale of trading stamps
for the purpose of a trading stamps scheme.

(3) No person shall in any manner whatsoever
advertise or cause to be advertised or assist in
the advertising of a trading stamps scheme.

Penalties.

4. Any person who contravenes any of the provisions of this Act shall be guilty of an offence and shall be liable on conviction by the Court of Magistrates of Judicial Police to a fine (multa) of not less than ten pounds and not exceeding one hundred pounds or to imprisonment for a term of not more than three months or to both such fine and imprisonment.

Offences by association of persons.

5. Where an offence against any of the provisions of this Act is committed by an association of persons, every person who, at the time of commission of the offence, was a director, manager, secretary or other similar officer of such association or was purporting to act in any such capacity shall be guilty of that offence unless he proves that the offence was committed without his knowledge and that he exercised all due diligence to prevent the commission of the offence.

Exemption.

6. (1) The provisions of sections 3 and 4 of this Act shall not apply to the promotion or operation of a trading stamps scheme directly and exclusively by an importer, manufacturer or seller in relation to the goods imported, manufactured or sold by such importer, manufacturer or seller.

(2) For the purpose of subsection (1) of this section a trading stamps scheme shall not be deemed to have been promoted or operated directly and exclusively by an importer, manufacturer or seller as therein stated if such importer, manufacturer or seller makes use or in any manner avails himself of the activity or services of any person who organises, promotes or co-ordinates a trading stamps scheme for or on behalf of two or more exempted persons, or if two or more exempted persons operate jointly a trading stamps scheme.

Objects and Reasons

The object of this Act is to prohibit the operation of prize giving schemes upon or connected with the sale of goods, except where such schemes are operated directly and exclusively by an importer, manufacturer or seller in relation to the goods imported, manufactured or sold by such importer, manufacturer or seller.