

HB

68

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## A BILL FOR AN ACT

RELATING TO CONSUMER PROTECTION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Section 481B-5.5, Hawaii Revised Statutes, is  
2 amended by amending subsection (1) to read as follows:

3           "(1) Any return policies adopted by the merchant pursuant  
4 to this section that limits the purchaser's ability to obtain a  
5 refund shall not apply if the goods were damaged or defective  
6 prior to the time of sale, unless the merchant was aware of the  
7 damage or defect and notified the purchaser of the damage or  
8 defect in writing prior to the time of sale. No warranty policy  
9 adopted by a merchant in the State shall require a purchaser to  
10 pay an additional fee to obtain a repair, replacement, or refund  
11 for goods returned pursuant to the warranty."

12           SECTION 2. This Act does not affect rights and duties that  
13 matured, penalties that were incurred, and proceedings that were  
14 begun before its effective date.

15           SECTION 3. New statutory material is underscored.



# H.B. NO. 68

1 SECTION 4. This Act shall take effect upon its approval.

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INTRODUCED BY:

*Biel*

*Sirdechima*

JAN 17 2019



# H.B. NO. 68

**Report Title:**

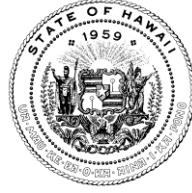
Merchandise; Returns; Unfair and Deceptive Trade Practices;  
Warranty Policy; Repair; Replacement; Refund

**Description:**

Prohibits a merchant from adopting a warranty policy that requires a purchaser to pay an additional fee to obtain a repair, replacement, or refund for goods returned pursuant to the warranty.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*





DAVID Y. IGE  
GOVERNOR

JOSH GREEN  
LT. GOVERNOR

**STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

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**Testimony of the Department of Commerce and Consumer Affairs**

**Before the  
House Committee on Consumer Protection and Commerce  
Wednesday, February 6, 2019  
2:00 p.m.  
State Capitol, Conference Room 329**

**On the following measure:  
H.B. 68, RELATING TO CONSUMER PROTECTION**

Chair Takumi and Members of the Committee:

My name is Stephen Levins, and I am the Executive Director of the Department of Commerce and Consumer Affairs' (Department) Office of Consumer Protection. The Department supports this bill.

The purpose of this bill is to prohibit a merchant from adopting a warranty policy that requires a purchaser to pay an additional fee to obtain a repair, replacement, or refund for goods returned pursuant to a warranty.

Some merchants charge consumers a "warranty processing fee" even when a warranted product is being returned because of a manufacturer's defect. This is fundamentally unfair. No consumer should have to bear the expense of processing the return, replacement, or refund of a defective product. It should be the seller's responsibility.

It is axiomatic that a business should not profit from selling a defective product to a consumer. In this context, it is patently unreasonable for a merchant to pass on its

Testimony of DCCA

H.B. 68

Page 2 of 2

costs to process a return or refund. A merchant, not the consumer, should bear the costs. It is improper to set as a precondition the payment of specious fees before a merchant will agree to fulfill the merchant's contractual and statutory obligations under applicable warranty law.

Thank you for the opportunity to testify on this bill.

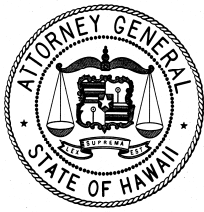
**HB-68**

Submitted on: 2/1/2019 6:56:37 PM

Testimony for CPC on 2/6/2019 2:00:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Karen Winslow	Individual	Support	No

Comments:



**TESTIMONY OF  
THE DEPARTMENT OF THE ATTORNEY GENERAL  
THIRTIETH LEGISLATURE, 2019**

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**ON THE FOLLOWING MEASURE:**

H.B. NO. 68, RELATING TO CONSUMER PROTECTION.

**BEFORE THE:**

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

**DATE:** Wednesday, February 6, 2019      **TIME:** 2:00 p.m.

**LOCATION:** State Capitol, Room 329

**TESTIFIER(S):** Clare E. Connors, Attorney General, or  
Mana Moriarty, Deputy Attorney General

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Chair Takumi and Members of the Committee:

The Department of the Attorney General provides the following comments.

The purpose of this bill is to prohibit merchants from adopting warranty policies that require a purchaser to pay an additional fee to obtain a repair, replacement, or refund for goods returned pursuant to the warranty. However, the wording of this bill limits the prohibition to a "merchant in the State."

The term "merchant in the State" term could be interpreted to include only merchants with a physical presence in the State. If so, then the bill should be clarified by amending Hawai'i Revised Statutes § 481B-5.5(a), to add a new definition to read as follows:

"Merchant in the State," means any merchant that (1) is created under the laws of the State of Hawaii, including but not limited to chapters 414, 414D, 415A, 425, 425E, or 428; (2) is authorized to transact business in the State of Hawaii; or (3) possesses a current unexpired Hawaii general excise tax license.

Limiting the scope of this bill to merchants that have a physical presence in the State, as measured by whether the merchant has a Hawai'i General Excise Tax license or is registered to do business in the State of Hawai'i, avoids concerns a Commerce Clause challenge.

If the intent of this bill is to define the term "merchant" to include merchants that do not have a physical presence in the State but do business in the State via electronic commerce, then this bill may be subject to a Commerce Clause challenge. The



Commerce Clause, article I, section 8, clause 3, of the United States Constitution, explicitly grants Congress power to regulate interstate commerce and implicitly restricts states from enacting laws that unduly burden interstate commerce. When the effect of a state statute is to favor in-state economic interests over out-of-state interests, the state statute will generally be struck down as a violation of the Commerce Clause. *Brown-Forman Distillers Corp. v. New York State Liquor Authority*, 476 U.S. 573, 579 (1986).

In this case, it could be argued that the “additional fees” in this bill are a reference to shipping fees, and shipping fees are disproportionately higher for out-of-state companies as compared to in-state companies. As discussed above, if the effect of a state statute is to favor in-state economic interests over out-of-state interests, the state statute will generally be struck down as a violation of the Commerce Clause.

Thank you for the opportunity to provide comments.



**TESTIMONY OF TINA YAMAKI  
PRESIDENT  
RETAIL MERCHANTS OF HAWAII  
February 6, 2019  
Re: HB 68 Relating to Consumer Protection**

Good afternoon Chairperson Takumi and members of the House Committee on Consumer Protection and Commerce. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

The Retail Merchants of Hawaii (RMH) as founded in 1901 and is a statewide, not for profit trade organization committed to the growth and development of the retail industry in Hawaii.

The retail industry is one of the largest employers in the state, employing 25% of the labor force.

The Retail Merchants of Hawaii **STRONGLY OPPOSES** HB 68 Relating to Consumer Protection. Retail has changed over the years were more and more people are purchasing online, expecting free shipping and no less than 2 day delivery. Last year alone, nationwide online shoppers returned more than \$369 billion worth of merchandise for various reasons.

**Reputable online retailers as a whole and in good faith DO NOT intentionally or knowingly try to deceive their customers by sending them defective or damaged items unless noted.** At least 30% of all products ordered on line are returned as compared to 9% in brick and mortar stores. Many retailers in good faith also try to resolve the issue by replacing the item and often offer free return shipping. **Often times, retailers have no way of knowing if the item contains a manufactures defect or was damaged during shipping – or more often than not it is the customer who damages the item themselves in an effort to return it.**

**Retailers are also very concerned that this measure will have an adverse increase in return abuse by customers.** Retailers are seeing this more often and it a form of “friendly fraud abuse” where someone purchases products without intending to keep them. Perhaps the most well-known form of this abuse is “wardrobing” or “free renting” – in which the person makes a purchase, uses the product(s), and then returns the merchandise. This is done not only with clothing, but electronics, household items and more. People would not intentionally damage to goods to insure free shipping and a total guaranteed full refund, even for ALL SALES FINAL items.

Sales on the worldwide web are global. Customers purchasing online need to have due diligence in reading and understanding the online shops return policies as they vary from store to store and especially internationally as well. We would also like to point out that there is a difference between a manufactures warranty and that of the retailer. Manufacturer warranties may include the lifetime of the product. A Retailers warranty could be shorter – less than a year - to bring the product back to be repaired or returned. Often times the retailer may no longer be under warranty of the product by is an authorized dealer and takes in a product to be sent back to the manufacture to be repaired as it is covered under the manufacturer warranty

Government mandates like this does drive up the cost of doing business that in turn drives up the cost of living in Hawaii. We urge you NOT to impose another government mandate on business and ask that you **DEFER** this measure.

Mahalo again for this opportunity to testify.