




Competition Bureau
Canada

Bureau de la concurrence
Canada



MULTI-LEVEL MARKETING AND PYRAMID SELLING

www.cb-bc.gc.ca

Canada

WHAT IS THE COMPETITION BUREAU?

The Competition Bureau is an independent law enforcement agency responsible for the administration and enforcement

of the *Competition Act*, the *Consumer Packaging and Labelling Act*, the *Textile Labelling Act* and the *Precious Metals Marking Act*. Its role is to promote and maintain fair competition so that Canadians can benefit from lower prices, product choice and quality services. Headed by the Commissioner of Competition, the organization investigates anti-competitive practices and promotes compliance with the laws under its jurisdiction.

WHAT IS THE COMPETITION ACT?

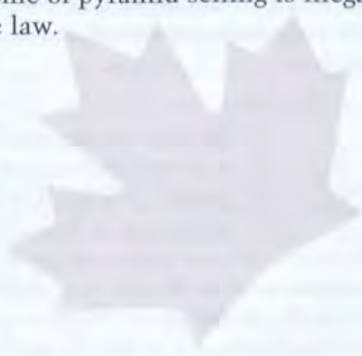
The *Competition Act* is a federal law governing most business conduct in Canada. It contains both criminal and civil

provisions aimed at preventing anti-competitive practices in the marketplace.

MULTI-LEVEL MARKETING PLANS AND SCHEMES OF PYRAMID SELLING

The *Competition Act* explains the differences between multi-level marketing plans and schemes of pyramid selling, and sets out the responsibilities for operators and participants in these types of plans.

Multi-level marketing, when it operates within the limits set by the *Competition Act*, is a legal business activity, while a scheme of pyramid selling is illegal as defined by the law.



WHAT IS MULTI-LEVEL MARKETING?

Multi-level marketing is a plan for the distribution of products whereby participants earn money by supplying products

to other participants in the same plan. They, in turn, make their money by supplying the same products to other participants.

WHAT SHOULD I LOOK OUT FOR?

Although multi-level marketing plans, as defined in the *Competition Act*, are a legal business activity, there are certain things you should be aware of before joining such a plan.

It is illegal for operators or participants in a multi-level marketing plan to make representations relating to compensation or earnings under the plan unless they include the amount of compensation actually or likely to be received by a typical participant of the plan. Such representations can mislead potential recruits to believe that it will be easy to make large amounts of money.

As well, operators of, and participants in, a multi-level marketing plan should ensure that any representations made about the plan are – or include information that is – fair, reasonable and timely as the plan relates to:

- the different levels of earnings or compensation received by participants in the plan;
- the amount of money earned by a typical participant; and
- the time and effort required to reach specific levels of income.



WHAT IS A SCHEME OF PYRAMID SELLING?

A scheme of pyramid selling is a multi-level marketing plan that incorporates any one of a number of specified marketing practices that make it a criminal offence under the *Competition Act*.

It is illegal if:

- participants pay money for the right to receive compensation for recruiting new participants;
- a participant is required to buy a specific quantity of products, other than at cost price for the purpose of advertising, before the participant is allowed to join the plan or advance within the plan;
- participants are knowingly sold commercially unreasonable quantities of the product or products (this practice is called inventory loading); or
- participants are not allowed to return products on reasonable commercial terms.

WHAT ARE THE POSSIBLE PENALTIES?

People who contravene the multi-level marketing or scheme of pyramid selling provisions of the *Competition Act* can be

convicted and sentenced to a fine at the discretion of the court or a prison term of up to five years, or both.

HOW DO I FILE A COMPLAINT?

If you believe that someone has in some way contravened any of the legislation enforced and administered by the

Bureau and you want to complain, you can telephone, fax, e-mail or write the Bureau at the numbers listed at the end of this publication.

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The Bureau conducts its investigations in private and keeps confidential the identity of the source and the information provided. However, if someone has important evidence about a contravention of any of the acts the Bureau administers, that person may be asked to testify in court.

WRITTEN OPINIONS

The Competition Bureau facilitates compliance with the law by providing various types of written opinions for a fee.

Company officials, lawyers and others are encouraged to request an opinion on whether the implementation of a proposed business plan or practice would raise an issue under the *Competition Act*. These written opinions are binding on the Commissioner of Competition unless the material facts change. A written opinion will be based on information provided by the requestor and will take into account previous case law, prior opinions and the stated policies of the Bureau.

The Bureau produces CD-ROMS and publications on various aspects of the *Competition Act*, the *Consumer Packaging and Labelling Act*, the *Textile Labelling Act* and the *Precious Metals Marking Act*. To find out more about our CD-ROMS and publications, contact the Information Centre:

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50 Victoria Street
Gatineau QC K1A 0C9

Toll-free: 1 800 348-5358

National Capital Region: (819) 997-4282

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This publication is only a guide. It provides basic information about the Competition Bureau and the acts it administers. For further information, you should refer to the full text of the acts or contact the Competition Bureau at one of the numbers listed above.

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