



David Campbell MP
Minister for Regional Development
Minister for the Illawarra
Minister for Small Business

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Mr Brian Cassidy
Chief Executive Officer
Australia Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

**MINISTERIAL
URGENT**

Dear Mr Cassidy

**Applications for Authorisation Nos A30224 and A30225 in relation to
EFTPOS interchange fees**

Thank you for your letter of 26 February 2002 inviting comment by me, as the Minister for Small Business, on applications from 12 financial institutions seeking authorisation for those organisations to agree to set "interchange fees" at zero cents per transaction for EFTPOS transactions and providing for a review of the level of fees every three years.

I note that "interchange fees" are paid by banks and other financial institutions to each other to cover the cost of the "EFTPOS" transaction network used widely in Australia.

In its simplest terms an "interchange fee" is paid by the bank that issued a customer's ATM card to the bank that has provided the retailer with the EFTPOS facility.

It appears from responses by financial institutions, merchants and consumer organisations, to the EFTPOS Industry Working Group (EIWG) discussion paper – "Options for EFTPOS Interchange Fee Reform", circulated in July 2002, that only financial institutions support the "zero interchange fee" position proposed by the Applicants. This outcome is likely to be reflective of the make-up of the EIWG and the absence of broader stakeholder consultation and input in the development of the interchange fee options.

Comments by stakeholders on the options proposed in the EIWG discussion paper also highlighted:-

- the impact of a zero interchange fee on small firms – small firms are less able to negotiate fee arrangements with banks. Small firms would be under pressure to absorb some of the additional merchant fees imposed by banks to recover

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CONSUMER COMMISSION**
CANBERRA
30 APR 2003

revenues forgone through a zero-based interchange fee, resulting in reduced profitability, or to pass the full cost onto customers (impacting on their competitive position); and

- concern regarding current Visa debit card ad valorem fees and introduction of other debit cards not covered by the current review process - merchants and consumers are concerned by a possible migration of "card scheme" or international debit cards into Australia and the resultant impact on fee and pricing structures.

I do not believe the Applicants have made a sufficient case in support of a zero interchange fee being set, at this time. It is apparent from responses to the discussion paper that the economic interests of individual stakeholders may be a barrier to them jointly reaching agreement on a position in relation to debit card interchange fees. The regulator will need to play a more direct role in the process of arriving at a balanced consideration of the issues and achieving an outcome that delivers an efficient, effective and competitive debit card payment system with appropriate and transparent cost determinations and allocations.

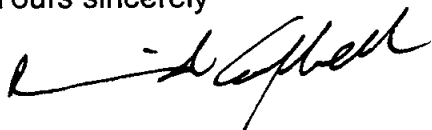
I support:

- an extension of timeframe of the debit card/EFTPOS review;
- establishment of a review panel by the Reserve Bank of Australia (RBA), comprising representation of all stakeholders, including consumers and small firms, and facilitated by the RBA; and
- an expansion of the scope of the review to include all debit card schemes and related fees.

Should you require further information regarding this submission, please contact Mr Graeme Manning, Senior Manager - Small Business on (02) 9338 6690 (email: graeme.manning@business.nsw.gov.au).

I hope these comments assist you in your deliberations.

Yours sincerely



David Campbell
Minister for Regional Development
Minister for the Illawarra
Minister for Small Business

24 APR 2003