

2 March 2009

By email and courier

Dr Richard Chadwick
General Manager, Adjudication Branch
Australian Competition and Consumer Commission
23 Marcus Clark Street
CANBERRA ACT 2610

Dear Dr Chadwick

~~Spump~~ - Exclusive dealing notifications N93625 & N93626 – further information

We refer to Graeme Samuel's request to Michael Luscombe for further information regarding Woolworths' plans for the roll-out and implementation of ~~Spump~~. In particular, Mr Samuel requested the following information:

- a timetable detailing the major steps and phases for the roll out and implementation of ~~Spump~~ showing how those steps relate to the HSBC exclusivity period and Woolworths' intentions for commencing discussions with other card issuing institutions.
- Woolworths' intentions in relation to reaching an agreement with card issuing institutions for their contactless credit cards to be accepted by ~~Spump~~.

~~This letter contains commercially sensitive, confidential information. Accordingly, Woolworths requests that the Commission treat the information in this letter as confidential. Woolworths will provide a redacted version of this letter shortly. L.R.~~

1. Launch and implementation timetable

1.1 Enclosed with this letter is a high level workplan setting out the major milestones for the roll-out of ~~Spump~~ and the dates by which Woolworths expects those milestones to be met. The workplan overlays the HSBC exclusivity period and Woolworths' expectations regarding the timing for discussions with other card issuing institutions and any resulting development work and implementation for their contactless credit cards to be accepted by ~~Spump~~.

1.2 You will see from the workplan that Woolworths' current expectations are that:

- (a) the current pilot will be extended to the public in ~~[Confidential]~~ on ~~[Confidential]~~.

- (b) staged launch will begin on [Confidential]. Woolworths expects ~~Opump~~ to be operational at more than 250 of its fuel outlets by 20 April 2009. The HSBC exclusivity period will end 12 months after this date.
- (c) 'stress-testing' will begin on [Confidential] and continue as user numbers grow throughout the year initially slowly but picking up pace in the second half of the first year of operation. The 'stress testing' will comprise:
- monitoring technical performance of the system, identifying system issues (Severity 1 to 3), problem diagnosis, design of solutions, reprogramming, lab testing, program drops at scheduled times, monitoring performance, response times and availability and readjusting where necessary;
 - monitoring effectiveness of support systems (software, hardware, customer support centre etc.) and making changes and enhancements;
 - monitoring customer feedback about the ease of using the system, speed through the forecourt, accuracy of charging and billing including electronic access to tax invoices, satisfaction with the delivery of the fuel saving, etc.
- (d) within about [Confidential] of beginning the 'stress-testing', Woolworths would have a functionally stable ~~Opump~~ system and data regarding customer usage, fuel dispensing, and payment authorisations, settlements and reconciliation. Woolworths would then be in a position to commence discussions with other card issuers from [Confidential].
- (e) card issuers could be in a position to launch ~~Opump~~'s acceptance of those cards by [Confidential]. [Confidential]. If a non-EM credit card is ready to launch at ~~Opump~~ before the end of the HSBC exclusivity period, Woolworths will seek to have HSBC waive the remaining period. Woolworths does not know what HSBC's response to such a request would be.

1.3 Key assumptions underpinning the workplan are:

- favourable ACCC final decision by 16 March 2009.
- contactless credit card issuers are genuinely committed to reaching a commercially reasonable deal and are willing to leverage the methods and systems already developed by Woolworths regarding mandatory PIN, pre-authorisation and redemption of fuel saving offers. Woolworths has no reason to expect that contactless credit card issuers will not be able to meet these technical requirements given that ~~Opump~~ hardware has been procured which is compatible with MasterCard and Visa contactless specifications and transaction messaging has been based on relevant Australian Standards as detailed in paragraph 2.4.

2. Intentions in relation to other contactless credit cards

- 2.1 As the Commission is aware, Woolworths has written to the major card issuers and invited them to meet with us after the launch of ~~Opump~~ to discuss their interest in undertaking the necessary development work and entering into the necessary commercial arrangements to enable their contactless credit cards to be used with ~~Opump~~. On the basis of the timetable above, Woolworths would expect to be in a position to commence those discussions from [Confidential].
- 2.2 Woolworths is genuinely committed and will negotiate in good faith to reach a commercially reasonable agreement with contactless credit card issuers. That agreement would be on terms

substantially consistent with the HSBC terms recognising the different commercial risks those issuers will be taking compared to HSBC. The agreement would require card issuers to pay Woolworths' incremental costs of connecting them to ~~Opump~~ in accordance with normal banking and payments industry practice.

- 2.3 Woolworths would expect that card issuers themselves would be genuinely committed to good faith negotiations in accordance with normal banking and payments industry practice and willing to leverage the methods and systems already developed by Woolworths for ~~Opump~~. The investment by Woolworths in ~~Opump~~ has created an incentive for card issuers to introduce contactless credit cards as there is now a merchant with a significant number of contactless readers installed in sites around Australia at which contactless credit cards will be able to be used once that agreement has been reached.
- 2.4 Woolworths' commitment is demonstrated by the fact that when developing ~~Opump~~ and procuring the necessary hardware and technology, Woolworths went to great trouble to ensure that ~~Opump~~ would be an open architecture system that has the potential to accept contactless payment cards regardless of card issuer or Scheme. To achieve this Woolworths has:
- (a) sourced readers with hardware capable of reading contactless payment cards based on both MasterCard Paypass and Visa payWave contactless payment specifications;
 - (b) implemented transaction messaging based on the relevant Australian Standard, AS2805.

Given that Visa payWave, MasterCard Paypass and AMEX contactless systems are not interoperable, Woolworths' decided to pursue an 'open architecture' procurement strategy, resulting in a significantly increased level of investment. This demonstrates the longstanding nature of Woolworths' intentions and the strength of its commitment to ensuring a wide acceptance of contactless credit cards by ~~Opump~~.

- 2.5 Woolworths' commercial commitment is further demonstrated by the commercial motivations for the introduction of ~~Opump~~:
- (a) over 80% of the nearly 1.8 million customers each week at Woolworths' own fuel outlets purchase fuel only. ~~Opump~~ has the potential to provide those customers with the speed, convenience and security of paying for their fuel without having to go into the convenience store.
 - (b) for customers who do not use ~~Opump~~ or who wish to make other purchases in the convenience store, ~~Opump~~ will provide shorter queues and queuing time in the kiosk.

These benefits become more significant as more customers carry contactless payment cards which they use at ~~Opump~~. This will require ~~Opump~~ to accept a wide range of contactless payment cards as soon as possible.

- 2.6 The Commission should also bear in mind that Woolworths has very recently developed world-class payments infrastructure (i.e. a payments 'switch') and in-house competencies with a highly experienced payments team. Within 18 months Woolworths successfully implemented [Confidential] direct payment links, including [Confidential]. This required the conclusion of technical and commercial arrangements to the satisfaction of all parties and demonstrates the ability of Woolworths and payment card issuers to reach commercially acceptable arrangements for modifying their payments processing capabilities and systems.

Please do not hesitate to contact us should you have any further queries about the workplan or our intentions as set out in this letter.

For and on behalf of
WOOLWORTHS LIMITED

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