



Mr Ian Macfarlane AC  
Governor  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear Mr Macfarlane

I am writing to you in my capacity as Chairman of the Australian Institute of Petroleum (AIP) to raise AIP's concerns about possible designation of the EFTPOS system. AIP is the industry association representing the interests of companies engaged in the refining, distribution and marketing of petroleum products.

AIP members (BP, Caltex, ExxonMobil and Shell) were closely involved in the establishment of the EFTPOS system and remain major users of the system. In excess of \$100 million has been invested by AIP member companies in the system. Transactions at AIP member company service stations account for about 16% of all EFTPOS transactions, and are worth about \$3 billion per annum. A reduction of the interchange fee from current levels to zero could result in extra costs to the industry of about \$29 million per annum.

AIP members regard the Australian EFTPOS system as a secure, reliable, efficient system that is well used by consumers and merchants alike. The system has been acknowledged by industry experts as being best of breed especially when compared with systems used in markets such as the UK and the USA.

AIP is concerned that the Reserve Bank is considering designation of the EFTPOS system, to review the interchange fee arrangements and the current access regime (a review process for which is currently under way through the Australian Payments Clearing Association), despite there being no evidence to suggest that the system is not working efficiently.

I have attached some brief notes which summarise AIP's views on key studies and reports which we believe may underlie current thinking within the Reserve Bank. In reviewing these studies and reports AIP can find only strong evidence to endorse the health and security of the EFTPOS system and suggests that it would be therefore inappropriate for the Reserve Bank to consider designation. Such action by the RBA would serve to stifle competition, introduce distortions into the EFTPOS, produce inequities, add to sovereign risk, and would not necessarily result in any consumer benefits.

In view of the substantial involvement of AIP member companies in the EFTPOS system I believe it is highly desirable that you and I discuss the AIP's position on the issue of the possible designation of EFTPOS to ensure we fully understand each others interests and concerns before the Bank takes any further steps on the matter.

I would like to meet with you to discuss this matter which is of considerable importance to AIP members, and will be in touch with your office about a suitable time for such a meeting.

Yours sincerely

Dave Reeves  
**Chairman**  
19 July 2004

cc: Ken Henry, Secretary to the Treasury

## **Summary of Australian Institute of Petroleum (AIP) views on key issues bearing on consideration by the Reserve Bank of Australia of 'designation' of the EFTPOS system**

AIP and its member companies have made submissions to the Reserve Bank of Australia on this matter, and AIP member companies have also contributed to and supported the submission made by the Australian Merchant Payment Forum.

### **The Joint Study**

AIP member companies are concerned that the Bank appears to be basing its rationale for designation on the findings of the Joint Study despite the fact that:

- the cards payments market has changed significantly since the study was undertaken partly due to the effects of the Bank's credit card reform and the developing partnerships between the charge card issuers and the banks
- the data contained in the Joint Study was both incomplete, as it did not, for example, take into account the costs of merchants who owned their own terminal infrastructure nor did it allocate certain processing costs between credit cards and debit cards on any considered basis
- economists who gave evidence at the Australian Competition Tribunal hearing agreed that the data in the Joint Study was out of date, incomplete and could not be relied on
- the Tribunal found that "the (Joint Study) figures were in any event a snapshot now almost four years out of date".

It is AIP's view therefore that the RBA should undertake further analysis and only then embark along a path to designate the EFTPOS system if that analysis demonstrates cause for concern.

### **Zero interchange**

The Bank has consistently espoused the position that there is no case for an EFTPOS interchange fee in either direction and that its preferred model is for zero interchange.

The "banks and others", persuaded by the Reserve Bank's views on this subject, applied to the ACCC in February 2003 for authorisation of a multilaterally set zero interchange fee. This was opposed by retailers, including AIP members, on the basis that the net effect would be that interchange costs would instead be passed on by the banks to retailers and hence consumers. At best there would be no net public benefit, and at worst, significant net public detriment. In its draft determination in August 2003, the ACCC rejected the application on the grounds that the public detriments outweighed the benefits. In its final decision in December 2003 the ACCC reversed its view to find in favour of the applicants.

The merchants, through the AMPF, Coles Myer and Woolworths challenged this decision through the Australian Competition Tribunal which found in their favour, ie against the banks and others, in May 2004.

It was the Tribunal's view that:

- merchants' costs would increase in a zero interchange fee environment resulting in a disincentive to undertake investment to upgrade the EFTPOS system
- any changes to interchange fees are unlikely to increase EFTPOS usage
- increased usage of EFTPOS at the expense of credit cards does not equate to an increase in efficiency – they are different products
- any public benefits (from zero interchange) are clearly outweighed by the detriments, ie the likelihood of a flow on of costs to consumers generally.

In AIP's view the Tribunal's findings unequivocally dismiss the rationale for a zero interchange fee.

**The EFTPOS access regime**

AIP believes that a more open access regime is a key element of EFTPOS reform as it is currently very difficult, from an acquiring perspective, to become a participant due to the large number of differing technical links a new entrant is required to develop.

During early 2003, the EFTPOS Access Working Group (EAWG) was established under the auspices of the Australian Payments Clearing Association (APCA) and was charged with developing a new access regime. The RBA is involved with this process as a member of both the EAWG and the APCA Board.

While the APCA has yet to deliver its new access regime, AIP – which has membership of the EAWG – believes the project is on track to deliver a new access model which will facilitate entry to this market and increase competition which will result in a reduction in the price to process EFTPOS transactions.

The RBA has supported the EAWG/APCA process to date and has stated that it would only designate should this process falter. AIP notes that a number of the banks have indicated as recently as this week that they consider this process should be given the full opportunity to develop an improved access regime which takes account of the significant recent changes in the sector.

The process has not faltered therefore AIP believes the RBA has no need to designate the EFTPOS system in order to develop an improved access regime.