



Coles Myer Ltd.

John Fletcher
Chief Executive Officer

9 August 2004

Mr I J Macfarlane AC
Chairman
Payments System Board
C/- The Secretary
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Mr Macfarlane,

RE EFTPOS

I write to formally request that the Reserve Bank does not Designate the EFTPOS system in order to set EFTPOS fees.

- 1. There is no need to fix interchange prices in a regime that already applies competitive principles, reflects 'user pays' and produces low prices for consumers.**

Currently EFTPOS interchange fees are low priced for network users and consumers. They are determined in line with competitive principles of bi-lateral negotiations between parties and producing competitive outcomes.

However, we do see the RBA playing an important role in ensuring markets operate competitively through ensuring the system is accessible to new participants and anticompetitive market practices are abolished.

From our retailer perspective, operating in a highly competitive environment with over 100,000 retailers, regulators do not need to set prices because intense competition produces low prices and quality and choice of products.

History shows that consumers do not benefit from price setting between competitors or by regulators because it distorts market signals and creates unintended consequences. By way of example, in the payments sphere banks have sought to issue the American Express and Diners Club cards in an effort to circumvent the new lower credit card interchange fees for Visa and MasterCard.

In respect of an open access regime for EFTPOS, an industry working party lead by APCA is currently working on access reform. The outcome of this work should be judged before regulatory intervention is justified.

2. The Australian Competition Tribunal found that zero interchange fees would result in a clear public detriment.

We also refer to the recent finding by the Australian Competition Tribunal (ACT), which considered and upheld an appeal by merchants against the banks' application to set the EFTPOS interchange fee at zero. The ACT found that zero interchange would result in a public detriment.

It would set a dangerous precedent for the Reserve Bank to disregard the findings of a respected independent tribunal, which undertook a robust evidentiary process in which all parties had the opportunity to participate.

The ACT found:

- Zero interchange fees would result in a windfall gain to the banks
- Unequivocally that zero interchange would result in a public detriment
- The banks have stated categorically that they will introduce new fees to all merchants
- Prices to consumers will increase
- No firm undertakings were provided by the banks that they would reduce costs of EFTPOS to cardholders
- Most debit cardholders do not pay EFTPOS transaction fees and there are many other factors that influence usage of debit cards
- Moving away from a 'user pays' approach to burying the cost of EFTPOS into general prices does not support transparency principles

3. Visa Debit

The RBA has designated Visa debit. We consider its involvement to be critical by again removing the anticompetitive aspects of the scheme thus allowing the market to determine prices and usage.

Such anticompetitive aspects include:

- The "honour all cards" rule – restricts merchants' ability to choose whether or not to accept Visa Debit
- The "no surcharge" rule
- Inability to identify Visa Debit (as opposed to Visa credit)

This approach then starts to bring commonality of principles to the operation of payments system and should be applied to all payment forms.

4. A zero interchange fee for EFTPOS would result in Coles Myer being unable to charge banks for the use of our network.

Coles Myer has invested tens of millions of dollars in establishing and maintaining an integrated EFTPOS network of almost 30,000 terminals. There is no other network where the owner cannot recover its cost and charge for its provision.

New network providers and EFTPOS and operating network participants would be discouraged due to the inability to recover establishment costs thus further entrenching the existing participants who can retrieve lost revenue disguised in other fees.

In summary

From our perspective there appears to be no justification for the RBA designating EFTPOS interchange fees at zero or attempting to set prices as:

- EFTPOS interchange already operates according to competitive principles and is low priced
- Fixing prices will distort market signals and create unintended consequences
- The Competition Tribunal found that setting the fee at zero would create a public detriment
- Those who have invested in networks will be unable to charge for its use – a disincentive to existing network owners such as CML and potential new entrants
- Similar principles can be applied to Visa Debit
- Over time in a competitive environment there should be no requirement to set price in any future payments system

We take this matter very seriously and would be happy to address the Board if appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Fletcher', written over a horizontal line.

John Fletcher