



29 July 2011

Head of Payment Policy Department
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Review of Card Surcharging

Qantas welcomes the opportunity to comment on proposed changes to the no-surcharge standards following the Review of Card Surcharging by the Payment Systems Board.

We do not believe the Consultation Document has established that a change to the current policy settings is warranted. Qantas believes the original decision of the Board to impose the no-surcharge Standards was correct and remains so. The Board's *Reform of Australia's Payments System: Preliminary Conclusions of the 2007/08 Review* identified substantial benefits had been generated by the revised policy, particularly in improving price signals to cardholders. That conclusion, in our experience, remains valid.

The Consultation Document itself illustrates the challenges inherent in moving away from a market based mechanism and the uncertainty implicit in the complexity of the regulatory intervention under consideration. The circumstances of the market remain complex and highly dynamic, particularly where rapidly growing on-line transactions are involved. We do not believe the Consultation Document demonstrates the market has evolved to a point where market forces can now be dismissed as a legitimate and sustainable policy objective or conclusively, that a regulatory intervention is now warranted.

In our view, there are considerable risks associated with premature regulatory intervention and the market remains the best and most credible mechanism to serve the original intention of the Board – to ensure cardholders can exercise legitimate buyer power.

The Australian aviation market is highly competitive and transparent. Government policy permits foreign carriers to establish domestic services in Australia. This ensures competitive tension is maintained either through direct establishment, evidenced by the entry of Virgin Blue and Tiger Airways or by the threat of entry. That competitive tension is not confined to price and scheduling but extends through all commercial aspects of the industry, including card transactions.

Further, Qantas believes the proposed changes have a number of implications for merchants such as Qantas Airlines and consumers, including the risk that:

- Significant card acceptance costs for merchants will be excluded from the Standards, resulting in additional costs for consumers



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- Disclosure to consumers will become more complex and cost recovery will become less transparent.
- Removal of the merchant's flexibility will increase complexity, create onerous processes, potentially require infrastructure and systems changes and result in higher costs for merchants and consumers.

Consumer demand has driven online sales growth and the use of cards for payment in recent years, a trend that shows no sign of slowing. In this context, it is important that merchants such as Qantas retain the flexibility to recover the cost of card acceptance and provide alternative payment options.

The Consultation Document refers to excessive surcharging as being of particular concern to the Board. These concerns appear to be based on a comparison of surcharges against average merchant service fee rates - however, these rates do not accurately reflect the additional related costs that Qantas incurs (for example, costs relating to fraud and charge backs, credit risk and compliance). These costs are by no means exclusive to Qantas.

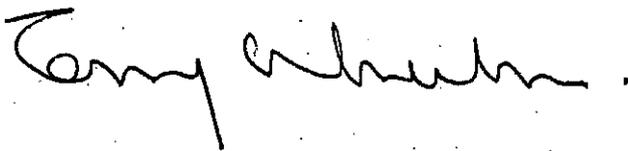
The Board has also highlighted concerns about the disparity between surcharges for various sales channels. Qantas maintains fee parity across all sales channels and provides payment options that enable customers to avoid card payment fees. Clear disclosures are provided through the booking process to ensure that fees are transparent and consumers are able to make informed payment decisions.

In Qantas' view, the proposed modifications to the Standards would have unintended consequences by limiting the merchant's ability to influence card acceptance costs, potentially increasing the overall cost burden for merchants and consumers.

Given the substantial risks associated with, and costs involved in, restructuring current payment systems, we believe further clarification is required before such fundamental changes can be considered.

We would be pleased to discuss our submission with the Board, or provide further information, if it would be of assistance.

Yours sincerely



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