



BRIEF SUBMITTED BY

**THE COALITION QUÉBÉCOISE CONTRE LA HAUSSE DES FRAIS DE TRANSACTION
PAR CARTE DE CRÉDIT ET DE DÉBIT**

OTTAWA

MAY 12, 2009

TABLE OF CONTENTS

	Page
Coalition québécoise: Who are we?	3
1. The credit card payment system	4
1.1 Importance of the system	4
1.2 Cost of the system	4
1.3 Rate increases in recent months	5
1.4 Increase in the number of credit card transactions	7
1.5 Increase in the number of premium cards	9
1.6 A rigid framework	10
1.7 Pressing need for transparency	11
Credit: Findings	12
Credit: Recommendations	13
1. Canada should regulate the credit card payment system	13
2. The Canadian system should be based on the real costs of the payment system, as the Australian system is	15
3. More transparency and flexibility should be required	16
2. The debit card payment system	17
2.1 Popularity of the debit card payment system	17
2.2 Entry of Visa and MasterCard into the debit market: foreign experience	19
Debit: The facts	20
Debit: Our recommendations	20
Review of our recommendations and conclusions	21
Appendix: Description of Coalition québécoise member organizations	22

Coalition québécoise: Who are we?

In October 2008, a number of Quebec associations decided to form a coalition to address two separate problems: rising credit card transaction fees and the impact of the change in Interac's corporate structure and the entry of Visa and MasterCard into the debit market. We are persuaded that debit card transaction fees will rise significantly if those scenarios were to come about.

The associations in question are:

- Association des détaillants en alimentation du Québec (ADA)
- Association des marchands dépanneurs et épiciers du Québec (AMDEQ)
- Association des hôteliers du Québec (AHQ)
- Association québécoise de la quincaillerie et des matériaux de construction (AQMAT)
- Association des restaurateurs du Québec (ARQ)
- Canadian Council of Grocery Distributors – Quebec section (CCDA)
- Conseil des chaînes de restaurants du Québec (CCRQ)
- Conseil québécois du commerce de détail (CQCD)

Our coalition represents more than 30,000 establishments in Quebec, in all regions, that employ nearly 1 million Quebecers.¹¹

We would like to thank the Committee on finance and the Committee on Industry, Science and Technology for allowing us to present the views of our members, who are retailers dealing in miscellaneous and grocery products as well as convenience store, hotel and restaurant operators, in respect of these two issues. They are issues that are very important for us, particularly in the current economic situation in which businesses in all sectors are experiencing sharply reduced cash flow. In addition, businesses' profit margins, particularly in the grocery and restaurant sectors, are extremely narrow.

¹ A description of the coalition's member organizations is set out in the appendix to this document.

1. The credit card payment system

1.1 Importance of the system

First, the members of the Coalition québécoise would like to point out to the Committee how important they consider the credit card payment system to be. We are aware that consumers appreciate the ease of payment that this system provides for them:

- > We appreciate the assurance of payment we get when payment is made by credit card (as with other methods such as debit card and cash);
- > We have always acknowledged that we have to pay a fee for the service offered by Visa and MasterCard;
- > Our members want to continue their relationships with the credit card companies, but on sound business terms.

The problem is therefore not with the payment system itself, but with the circumstances in which it operates. Credit cards are a favoured option for consumers and merchants.

1.2 Cost of the system

Over time, credit cards have taken their place among common payment methods for consumers in Quebec and Canada. Today, 94% of that market is occupied by two multinational corporations: Visa and MasterCard. This strong market concentration explains, in large part, the fact that businesses have limited bargaining power, if not no bargaining power, when it comes to transaction fees. That is why more than 200,000 retailers who belong to the Canadian and Quebec coalitions must look to government to put this important system back on sound footings.

In 2006, the Bank of Canada² measured the real cost of cash, debit card and credit card transactions. The results are striking, and speak volumes about the imbalance that concerns us. We can see that a \$36 transaction, all costs considered, cost merchants:

- > \$0.19 for payment by debit card;
- > \$0.25 for cash payment; and
- > \$0.82 for payment by credit card.

This means that by 2008 it cost four times more to pay by credit card than by debit card. It is therefore clear that the current system is very onerous and recent increases have further widened this significant gap.

² Merchant Acceptance, Costs and Perceptions of Retail Payments: A Canadian Survey, Discussion Paper, 2008-12, Bank of Canada, pp. 1, 2.

1.3 Rate increases in recent months

In recent months, our members have seen a very significant increase in their credit card transaction fees – while at the same time they have been offered no additional services.

The following is a summary of the rate changes that have been imposed in the last 18 months:

- + **October 2007 – Visa:** One basis point as evaluation fee (1 basis point = 0.01%)
- + **October 2007 – MasterCard:** 40 basis points on transactions using foreign cards;
- + **April 2008 – Visa:** New rate structure
- + **May 2008 – MasterCard:** MasterCard high expense program – 40 basis point increase
- + **October 2008-Visa:** Evaluation fee, up to 6 basis points
- + **October 2008 – MasterCard:** Premium cards – 20 basis point increase
- + **November 2008 – MasterCard:** New rate structure
- + **April 2009 – MasterCard:** New levy of \$0.125 US on foreign cards
- + **April 2009 – MasterCard:** Finalization of new rate structure begun in 2008

ADA: For members of the ADA, from 2007 to 2009, the costs of credit transactions jumped by 37%, while the percentage use of credit card payments rose by 4%. During the same period, debit card use remained substantially the same.

As well, an internal survey conducted by the ADA in April 2009 found that 31% of owners of convenience stores or specialty businesses did not accept credit card payment because they considered that option to be too expensive.

(Sample: 240 respondents (144 supermarkets, 54 grocery stores, 42 convenience stores))

AHQ: The various Visa and MasterCard rates represent an average increase of 11.5% and may be as high as 17% for hotels. These rate increases represent additional costs ranging from \$11,00 to \$65,000 per year for a single hotel establishment.

As well, hotel customers commonly use a company card or a card from a foreign country, and this invariably results in higher fees.

CQCD: A consultation was held in January 2009 with CQCD members; 54 businesses responded to our in-house survey. They represent 2,213 stores and employ nearly 20,000 people in Quebec;

83% of respondents have seen an increase in their costs in the last year, and of them, 90% of stores report an increase in those fees of more than 10%.

The rates are not only rising, they have risen tenfold in some categories. The highest rates are applied to certain categories of cards, but also certain types of transactions. In addition to paying more, businesses find it difficult to understand the statements for these transactions, which justify the monthly fee payments. This has become very complex and incomprehensible.

To illustrate these new and more complex rate structures, the following is an example of the rates:

VISA		
Merchant discount rate (MDR)		
	Electronic	Standard
In April 2008	1.70%	1.70%
Since April 2008		
General public credit cards	1.64%	1.75%
Company credit cards	1.98%	2.08%
Credit cards with privileges	1.83%	1.93%

MASTERCARD

Merchant Discount Rate (MDR)

	Electronic	Standard
In October 2008	1.68%	1.68%
Since October 2008 (including increase on April 18, 2009)		
General public credit cards	1.655%	1.855%
Company credit cards	2.090%	2.090%
Credit cards with privilege	2.115%	2.245%
Elite worldwide cards	2.365%	2.765%

It is important to note that in the hotel industry a majority of transactions are billed at the standard transaction rate and so the rate is higher, because the businesses do not have the customer's card in hand when the reservation is made (telephone/internet) and the card is processed by Property Management System (PMS) software that is not connected to a point of sale terminal (PST) but is able to record information from a credit card swiped through it that informs the various departments in the establishment that the customer has arrived.

1.4 Increase in number of credit card transactions

In recent years the trend has been toward more transactions being conducted by credit card.

ADA: In the consultation mentioned above (*Sample: 240 respondents (144 supermarkets, 54 grocery stores, 42 convenience stores)*) we saw the proportion of average fees vs. rate of credit card use among the grocery retailers consulted.

CREDIT			
% use	12.2% ³	6%	13.6%
Average rate VISA	1.62%	1.68%	1.49%
Average rate MasterCard	1.58%	1.69%	1.50%
Average annual rate	n.d.	\$7,787	\$66,442

³ Convenience stores with gas stations raise the credit card use rate in this category significantly.

AHQ: In the hotel industry, no reservations can be made without a credit card. Payment is made by credit card in 95% of stays. In the tourism industry in general, for example at skiing facilities, season passes are purchased directly on line, via Internet, and so are paid by credit card.

Credit cards are an essential part of how the tourism industry operates worldwide. The hotel industry simply cannot survive without them.

AQMAT: AQMAT consulted its members on this issue; in response to the question:

“Do you support regulation of the Canadian credit card system?”

100% of the 49 respondent businesses said “yes”.

The 75 participants at the decision-makers conference held on March 15 voted unanimously in favour of the following resolution: [TRANSLATION] “that AQMAT continue to play an active role in the coalition created by the Conseil québécois du commerce de détail to have the Canadian government set legislative limits on interchange and interest fees proposed by credit card issuing banks and companies.”

ARQ: According to a 2006 Interac marketing study, 48% of debit card holders prefer debit payment and 25% prefer credit payment, for a total of 73% for electronic transactions.⁴

In addition, credit card payment is one of the most used methods for paying a bill in the restaurant industry. It is a simple, effective and widely available method. While a restaurant owner is free to accept electronic payment in its establishment, the popularity of this method with customers means that it would be problematic and very restrictive to refuse it.

CCDA: The use of credit cards in the grocery industry has risen significantly in the last three years. On average, credit card payments have risen seen an annual increase of 20% of total transactions.

CQCD: In the consultation of CQCD members referred to above, we found that 60% of respondent members said that more than 50% of transactions in their stores were by credit card.

No doubt the businesses in our sectors are seeing an increase in the popularity of credit card payments and a corresponding increase in the fees associated with those payments.

⁴ Interac Association – Statistics.

1.5 Increase in the number of premium cards

The fees and number of transactions have therefore increased in recent years, not only in percentage terms but also as a function of the burgeoning number of premium credit cards, which carry with them considerably steeper fees. Those cards are often offered to consumers who have not applied for them and do not know what the costs of the system associated with them are. The premiums consumers are offered are not free!

The characteristics of these cards are generally:

- Individuals are selected based on their personal or household income and their level of credit card purchases;
- Cards are sent to consumers, often when they have not applied for them;
- Transactions paid for at a retailer with these cards cost about 2%, or about 47% more than the base rate of 1.26% initially offered by the credit card companies for some businesses in the grocery industry, for example.
- Consumers are strongly urged to use these cards in all their everyday transactions, to accumulate premiums. The more transactions, the more premiums ... and exorbitant fees charged to retailers.

This is a risk-free system for the credit card companies and card issuers, but it will inevitably have inflationary effects on prices. As well, consumers who do not have these premium cards or who pay by debit card or in cash will pay a portion of the premiums given to premium card users, in the prices of the items they purchase, the meals they eat in restaurants and the cost of their hotel rooms.

In the grocery industry, according to the members of the Canadian Council of Grocery Distributors, the INFINITE card (Visa's premium card) accounted for over 40% of the market, while the Visa representative recently informed the Quebec coalition that it held only a 15% market share.

As well, it is estimated that in 2007 these premium cards accounted for 3% of the Canadian market. Today, they account for 22%, and it is believed that figure will climb to 50% in 2010. Members of our associations are seeing this trend in Quebec. This is a significant increase, particularly when we consider it in the context of an increase in the number of credit card purchases. For example, the CCDA estimates that premium credit card purchases account for 50% of total credit card purchases at large grocery retailers.

We must not forget that under the standard contracts retailers are required to sign, they are obliged to accept all types of cards and therefore cannot manage their costs to reflect the fees associated with each type of card.

1.6 A rigid framework

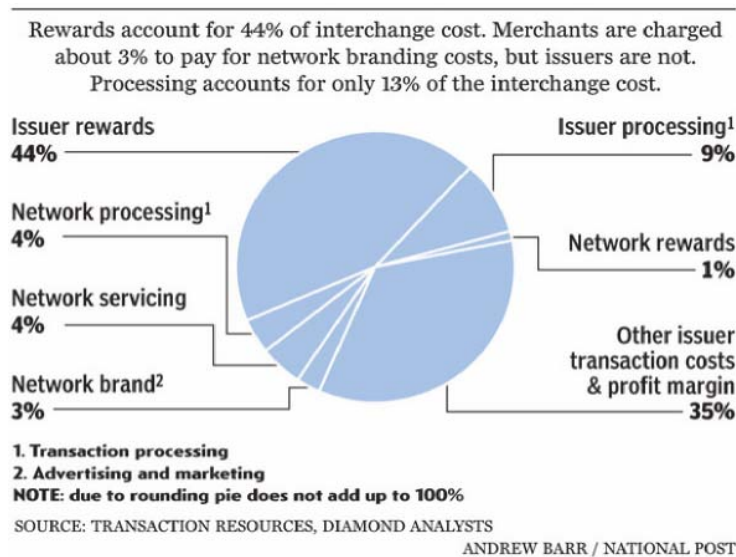
The contracts signed by retailers in order to have access to payment by Visa or MasterCard are very restrictive and can be likened to contracts of adhesion. That is, there is no opportunity for negotiating. The clauses are take it or leave it. The fact that there is virtually no competition on the credit market therefore also has significant consequences in terms of the rigidity of these contracts. Imagine, even a coalition of over 200,000 retailers has no bargaining power against Visa and MasterCard!

To illustrate the rigid framework imposed by those corporations, we will primarily note the following three rules, which are included in the vast majority of their contracts, if not all of them:

- ✓ Obligation to honour all types of the cards of the brand with which the contract is signed;
- ✓ Prohibition on charging additional fees to consumers who use the cards, which cost the retailer more;
- ✓ Prohibition on influencing consumers to use a card that carries lower costs, including debit cards.

It is therefore impossible to offer any discount as an incentive for a consumer to use some type of credit or debit card.

We also estimate that fees associated with credit card transactions provide excessive funding for activities with no direct connection to operating and maintaining the security of the payment system, as the following chart illustrates:



1.7 Pressing need for transparency

In addition to the high and rising costs, it has become difficult for retailers to analyze their transaction statements each month. The increase in the number and type of rates and the rates associated with each transaction in their business establishments are not clearly identified. It is therefore very difficult for the owner to manage its transactions effectively and to identify the real costs associated with the various types of credit cards.

For example, more specifically, since April 2008 (Visa) and November 2008 (MasterCard), the hotel industry has moved from a fixed rate to a grid of as many as eight different rates, depending on the type of card used (individual, corporate, Canadian, foreign, premium, etc.) and the type of transaction (standard and electronic).

The fee grid does not allow any verification or checking, since a majority of the companies that operate the transaction networks (Moneris, Chase, Paymentech, etc) do not submit detailed bills, and rather provide a bundle with the amount payable. It is virtually impossible for the retailer to identify the type of card and verify the amount billed to it, and retailers have to rely on the reading by the processing company.

Businesses feel trapped in a deliberately complex system. Once they get their statements, all they can see is that it is costing them more all the time. We think that in a sound business relationship, transparency must be the rule, and that is not the case in the relationship between credit companies and retail businesses.

CREDIT: FINDINGS

- > Credit cards have become essential for consumers and retailers;
- > Retailers' transaction fees are rising significantly;
- > Contracts, and the way transaction statements are organized, provide retailers no opportunity to manage their costs better;
- > A majority of the fees collected from retailers are used not for managing the network and protecting retailers, but for marketing and premiums;
- > Credit card companies are issuing growing numbers of premium cards, which carry with them much higher fees;
- > Consumers are being urged to make much more frequent use of these premium cards;
- > Retailers pay for the marketing to urge consumers to use these cards ... that cost them more;
- > We have no bargaining power with Visa and MasterCard, which have a 94% share of the credit card market in Canada.

CREDIT: RECOMMENDATIONS

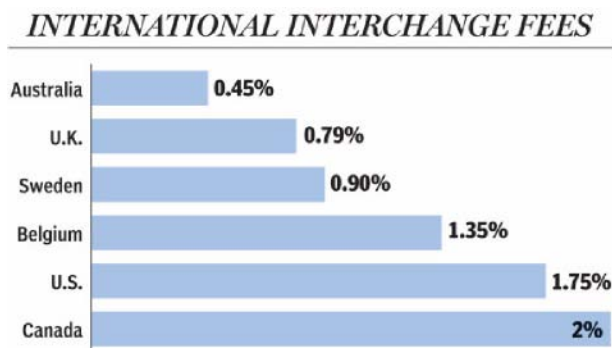
It is against this backdrop that the Coalition québécoise is making recommendations to the Standing Committee on Banking, Trade and Commerce to restore the credit card system in Quebec and Canada to a sound footing and ensure that viable conditions for all stakeholders are preserved.

Recommandation 1. Canada should regulate the credit card payment system

To do this, Canada should draw on foreign models, and in particular the model that has been applied in Australia for the last six years, to regulate the establishment of and adjustments to fees associated with credit card transactions.

It is worth noting that Australian retailers pay about \$0.45 on a \$100 transaction, while in Great Britain it is about \$0.79. In Canada and Quebec, by our estimates, a retailer pays between \$1.35 and a little over \$200 on a \$100 transaction. Do transactions really cost more to conduct and protect in Canada than in other industrialized countries? We strongly doubt it.

Below are some of the average rates applied in other countries:



Source: Transaction Resources, Andrew Barr, National Post

We think it is worth considering the Australian legislation in particular, the objectives of which are as follows:

The objective of this Standard is to ensure that the setting of wholesale ('interchange') fees in each designated credit card scheme is transparent and promotes:

- (i) efficiency; and*
- (ii) competition in the Australian payments system.⁵*

⁵ The setting of wholesale ('interchange') Fees in the designated Credit Card Scheme

In 2003, the Reserve Bank of Australia (RBA) cut the transaction rate for Visa and MasterCard and reduced the fee to an average of as low as 0.55% of the transaction cost, a 40% reduction. The legislation provides that interchange fees may not exceed “the common cost-based benchmark calculated in accordance with paragraphs ...”.⁶

The RBA thus demanded greater transparency in the way fees are calculated and provided for cards to be issued by organizations other than banks, thus creating greater competition in the system.

The system has been criticized by Visa and MasterCard, which reiterated those criticisms in their presentation to the Standing Committee on Banking, Trade and Commerce on April 21. Those corporations argue, for example, that the Australian system has harmed consumers and led to less innovation in the industry.

To answer those criticisms, it is important to note that in its review of the reform of Australia’s payment system, the RBA observed that the system in its present form is functioning well.⁷

Other countries, such as Argentina, Denmark, Great Britain, Mexico, Spain and the United States have taken action to control fees or are considering doing so.⁸ In Europe, the European Commission has conducted an investigation and the results were released in January 2007; its findings included:⁹

- Payment card companies had been making excessive profits at the expense of European consumers for many years;
- Card-issuing companies do not need hidden fees to generate profits;
- The lack of transparency prevents consumers from making informed decisions about the method of payment they should use and the associated costs.

The European Commission is still studying MasterCard’s practices and could take legal action. A second investigation into Visa’s practices was carried out 2008, and the results are expected in the next few months.¹⁰

In the United States, a bipartisan bill, the Credit Card Fair Fee Act (HR 5546), was introduced in the House of Representatives in March 2008. The same bill was introduced in the Senate last June.¹¹

⁶ Idem., s. 10

⁷ Reform of Australia’s payment system, Conclusions of the 2007-08 Review, Reserve Bank of Australia.

⁸ Developments in Interchange Fees in the United States and Abroad, Terri Bradford & Fumiko Hayashi, Payment System Research Briefing, Federal Reserve Bank of Kansas City, April 2008.

⁹ Information collected at www.stopunfaircardfees.eu

¹⁰ Information collected at www.stopunfaircardfees.eu

¹¹ www.opencongress.org/bill/110-s3086/text and www.opencongress.org/bill/110-h6248/show

The bills are the outcome of numerous Senate hearings. The following are two comments by influential Democrat and Republican senators concerning the merchant fee system:

Interchange fees are growing exponentially. These opaque fees — assessed on merchants — are passed on, in part or whole, to consumers who have no knowledge or understanding that a fee is even part of the cost of bread or milk or any other consumer product. Senator Chris Dodd, (Democrat, Connecticut)¹²

We may need to modify our antitrust laws to stop credit card companies from engaging in activities to gouge and jack up prices. Senator Arlen Specter (then Republican, now Democrat as of April 29, 2009, Pennsylvania)¹³

The Canadian situation is just as difficult as the situation in the United States and elsewhere, and we are convinced that Canada should follow that lead and regulate credit card company practices, in the best interests of retailers, consumers and the system itself.

Recommendation 2: The Canadian system should be based on the real costs of the payment system, as the Australian system is

When we look at the Australian model, we see that the law clearly defines the bases on which eligible costs might be determined:

Section 13 ... *Eligible costs are:*

- (i) *Issuers' costs incurred principally in processing credit card transactions, including the costs of receiving, verifying, reconciling and settling such transactions;*
- (ii) *Issuers' costs incurred principally in respect of fraud and fraud prevention in connection with credit card transactions;*
- (iii) *Issuers' costs incurred principally in providing authorisation or credit card transactions; and*
- (iv) *Issuers' costs incurred in funding the interest-free period on credit card transactions, calculated using the average of the cash rate published by the Reserve Bank of Australia overt three financial years prior to the date by which the cost-based benchmark must be calculated.*¹⁴

It can be seen that the rate is based on the real costs of operating the system, and not on the corporate priorities of Visa and MasterCard. In our view, this is much sounder reasoning.

¹² January 25th 2007, Opening remarks of Mr. Dodd, as *Chairman of the US Senate Banking, Housing and Urban Affairs Committee : Hearings to examine the billing, marketing and disclosure practices of the credit card industry and their impact on consumers.*

¹³ Citation to be added.

¹⁴ The setting of wholesale ('Interchange') Fees in the designated Credit Card Scheme, art. 13

Recommendation 3: More transparency and flexibility should be required

We believe that more transparency should be required, both to identify cards that involve higher fees and in the statements given to merchants for transactions conducted in their establishments. As specific as that might seem, in spite of the large volume and value of those transactions, merchants need regulations requiring that information, which is essential if they are to be able to manage their costs and the payment system in general.

We also believe that some flexibility should be introduced into the contracts that are currently imposed by Visa and MasterCard, specifically by eliminating the clauses that prohibit merchants from refusing some types of cards and suggesting a less expensive payment method to their customers (lower-fee credit card, debit card or cash). This would introduce some competition among payment methods and card types, there being virtually no such competition at present, given the rigidity of the contracts.

The increasing types of rates, as a result of increasing types of cards and transactions, have resulted in complexity. That is the root of the transparency problems to which we are referring.

We therefore believe that the system should promote a significant reduction in the number of rates.

CREDIT: OUR RECOMMENDATIONS

- > Canada should regulate the credit card payment system;
- > The Canadian system should be based on the real costs of the payment system, as the Australian system is;
- > Greater transparency and flexibility should be required, particularly in contracts and statements provided to merchants;
- > This should produce a significant reduction in the number of rates, which would even drop to a single rate, if the rigid terms of the contracts do not change.

2. The debit card payment system

Our members are satisfied with the current debit card payment system. It is effective and the fees associated with it are reasonable. The rate is a fixed cost per transaction and is not based on the value of the transaction, which makes it simple and does not enable Interac to profit from inflation.

With regard to the change in Interac's corporate status, the situation is this. As we already know, MasterCard and Visa are planning to enter the debit card payment business in competition with Interac. At the same time, Interac wants to change its status, in part so that it can position itself to meet that competition.

The coalition is not opposed to the change in Interac's corporate status in principle, as long as the consequences do not result in a major overhaul of current rates charged, for example the introduction of an interchange rate similar to the one applied in the credit industry.

While it may seem as if the presence of more players in the debit market will drive rates down, we believe, on the contrary, that rates will increase.

As was the case in the credit industry in the early days, fees will probably not increase much initially, but once the market and consumer habits are well established, the companies will be able to increase their rates at will, as they have done with credit cards.

2.1 Popularity of the debit card payment system

Credit card payment is very popular in Canada and Quebec. Canadians are the second largest users of this payment in the world, after the Swedes.¹⁵

In 2007, over 3.45 million payments were made by debit card in Canada, and Quebec is no exception to this trend. It is clear to the Coalition québécoise that any unjustified fee increase, for instance by instituting a fee based on the value of the transaction, would be disastrous for our members.

We need only consider a \$50 transaction that today costs the retailer a little under \$0.10, on average, and that could cost \$0.1875, nearly double, with a rate of \$0.75 plus \$0.15 (Visa interchange fee for debit transactions in the United States). That would be an excessive increase that would inevitably be passed on to consumers.

¹⁵ Interac Statistics, Interac.org

ADA: The possibility that Interac could be converted from a fixed payment (per transaction) method to a percentage payment method is a source of considerable concern for grocery retailers, since 94% of respondents to the ADA consultation said they were opposed or very opposed to this.

They are afraid of an even greater erosion of their profit margins, which have been particularly hard hit by the inventiveness seen in percentage payment methods (Infinite card, Premium card, etc.).

It is important to note that in spite of the increased popularity of credit cards, a large portion of grocery purchases are still made by debit, and so are charged at a fixed rate regardless of the amount of the transaction.

Type of outlet	Convenience store or specialty store	Grocery store (<10,000 ft ²)	Supermarket (>10,000 ft ²)
DEBIT			
% use	35.5%	26.7%	39%
Average Interac rate	4.3¢	2.5¢	2.1¢

AHQ: Although credit card is the most common payment method, the hotel industry is afraid of an increase in connection with the use of debit cards. These additional fees could only lead to more “pay cash and get a 2% discount”, which is much more difficult to manage.

ARQ: In 2007, the Canadian restaurant industry had total sales of \$3.8 billion for debit card payments, representing 8.3% of total revenue in that industry. For the same year, there were terminals in 46,892 establishments,¹⁶ 60%¹⁷ of the total number of bars and restaurants in Canada.

CCDA: Debit card payments represent 50% of purchases in major grocery retailers. This demonstrates the importance of assessing the impact of a debit card modelled on the American system entering the Canadian market, because here again, these new costs will impact on consumers.

CQCD: In the consultation of CQCD members referred to earlier, 42% of respondents, representing 1649 businesses, reported that more than 30% of transactions in their businesses were paid for by debit card.

Given these findings, clearly we are extremely concerned about Visa and MasterCard entering the debit market and Interac’s corporate status being altered to meet this new competition.

¹⁶ Interac Association - Statistics

¹⁷ Statistics Canada – Table 355-0006

2.2 Entry of Visa and MasterCard into the debit market: foreign experience

In the United States, Visa's interchange rates for each PIN debit card payment fall within a range with an upper limit of \$0.75 per \$100 transaction value, plus \$0.15. MasterCard's rates are similar.

The following comment appeared in a press release dated March 26, 2009, by the U.S. Merchants Payments Coalition (MPC), and should give us pause. It strengthens our resolve to ensure that the terms on which Visa and MasterCard enter the debit market in Canada and Quebec is tightly regulated.

With Visa and MasterCard making moves to enter the Canadian debit card market, Canada is poised to repeat the mistakes made by the United States in the 1990s. Allowing Visa and MasterCard to infiltrate American debit markets has cost consumers in this country billions of dollars in excess debit interchange and impaired the expansion of the most cost effective and secure method of payment. There is no reason to expect things to be any different in Canada.

The situation seems to be the same in Europe. Euro Commerce, an organization similar to the Conseil québécois du commerce de détail in the European Union, made the following comment in relation to the upcoming introduction of the single payment card by the European banking system:

Prices of payment instruments do not increase - experience shows that when MasterCard takes over a domestic market, prices increase. In 2002, when MasterCard took over the national debit card scheme, it increased prices by up to 60% to the levels charged by Visa. In response, Visa has now increased its debit fees by 25%.¹⁸

Given this situation, we believe it is important to learn what foreign experience has been, to ensure that the debit payment system, the model that is least expensive for all parties, does not become subject to the same mechanisms as credit card payments.

¹⁸ www.stopunfaircardfees.eu

DEBIT: THE FACTS

- > The debit card payment system is effective, inexpensive and popular with consumers and merchants;
- > The change in Interac's corporate status and new competition from Visa and MasterCard in the debit market could lead to the introduction of fees similar to the fees now found in the credit market;
- > The consequences of introducing these new fees would be very significant for merchants and would have an impact on consumer prices.

DEBIT: OUR RECOMMENDATIONS

- > Visa and MasterCard should not be allowed to enter the Canadian debit market with the ability to introduce an interchange fee or other fee based on the value of the transaction;
- > Fees associated with debit card transactions should be established in a transparent manner based on the costs of operating the system;
- > The change in Interac's corporate status should be subject to the same conditions.

REVIEW OF OUR RECOMMENDATIONS

CREDIT

- > Canada should regulate the credit card payment system;
- > The Canadian system should be based on the real costs of the payment system, as the Australian system is;
- > Greater transparency and flexibility should be required, particularly in contracts and statements provided to merchants;
- > This should produce a significant reduction in the number of rates, which would even drop to a single rate, if the rigid terms of the contracts do not change.

DEBIT

- > Visa and MasterCard should not be allowed to enter the Canadian debit market with the ability to introduce an interchange fee or other fee based on the value of the transaction;
- > Fees associated with debit card transactions should be established in a transparent manner based on the costs of operating the system;
- > The change in Interac's corporate status should be subject to the same conditions.

CONCLUSION

Our members welcome healthy competition, but believe that a dysfunctional system of competition, with hidden costs, that is constantly changing and is out of control, is not beneficial for merchants or consumers. In the circumstances, we believe that our elected representatives have a responsibility to act to protect consumers from this inflationary and unregulated pressure.

APPENDIX

Association des détaillants en alimentation du Québec

The Association des détaillants en alimentation du Québec (A.D.A.) was founded in 1975 and is the only association representing all retail grocery owners in Quebec. Its mission is to defend and represent the professional, sociopolitical and economic interests of some 9 000 grocery retailers, regardless of brand or the type of outlet they operate.

Association des Hôteliers du Québec

The Association des hôteliers du Québec (AHQ) was founded in 1949. Its mission is to represent and defend the interests of its members and offer them competitive services and benefits. The AHQ is also the sectoral association representing the hotel industry that is recognized by the government of Quebec, and is such is consulted on various issues.

The AHQ's membership includes all types of hotel establishments, from the major chains to seasonal operations. Accommodations in hotels and motels account for 40% of tourism revenue in Quebec, totalling \$2.6 billion (2007).

Association des marchands dépanneurs et épiciers du Québec

The Association des marchands dépanneurs et épiciers du Québec (AMDEQ) was founded in 1983 and represents over 1,000 members who own convenience stores and grocery stores in all regions of Quebec. Its members are all independent merchants.

Association québécoise de la quincaillerie et des matériaux de construction

The Association québécoise de la quincaillerie et des matériaux de construction du Québec (AQMAT) was founded in 1940 and represents the interests of merchants in these two businesses that have combined annual sales of \$14 billion, 14 million square feet of sales floor and 20,000 full-time jobs.

Association des restaurateurs du Québec

The Association des restaurateurs du Québec (ARQ) was founded in 1938 and is the oldest and largest organization of restaurant owners and food service managers in Quebec.

It has nearly 4,200 corporate members that operate over 6,500 establishments in Quebec, in all categories, in all regions. In 2008, these businesses generated sales totalling over \$4.8 billion, more than 50% of total sales in the industry in Quebec.

Canadian Council of Grocery Distributors

The Canadian Council of Grocery Distributors (CCDA) is the voice and information hub for the grocery industry in Canada. It advocates best practices, industry standards and a common position on issues in the industry.

Conseil des chaînes de restaurants du Québec

The Conseil des chaînes de restaurants du Québec (CCRQ) is an association whose members include the major restaurant chains in Quebec, a total of about 2,000 establishments. The CCRQ also has 2,500 independent members in Quebec. It is a branch of the Canadian Restaurant and Foodservices Association (CRFA), which has 34,000 members across Canada.

Conseil québécois du commerce de détail

For 30 years now, the Conseil québécois du commerce de détail (CQCD) has been proud to represent the retail community of Quebec, and pursues its mission of representing, promoting the sector and defending the interests of its members, to ensure sound development of the retail sector in Quebec. Its members represent nearly 70% of the retail sector in Quebec.