

14th March 2002

Mr. John Veale,
Head of Payments Policy Department,
Reserve Bank of Australia,
65 Martin Place,
SYDNEY, NSW, 2001

Dear John,

Re: Consultation Document on Credit Card Interchange Fees in Australia

Shell Australia welcomes the main thrust of the RBA's consultation document and in principle agrees with the direction in which its findings are heading.

In relation to the three main findings;

1. **Shell agrees with the introduction of an objective, transparent and cost based methodology for determining "interchange" fees.** Shell's original reason for preferring the abolition of interchange fees was the absolute difficulty of ever being able to establish a fair and reasonable set of costs from the card issuers. We still believe this to be a significant issue, but we understand that the RBA would prefer to follow this course, rather than an alternative. If there must be an interchange rate, then this is the best basis upon which to have one.
2. **Shell agrees in principle with the removal of the "No Surcharge" rule but has no intention of implementing this rule throughout its retail network.** Shell is not responsible however, for the pricing policies of its independent franchisees.
3. **Shell fully supports the entry of new players into credit card schemes and the increased competition this would generate.**

Despite our broad agreement with the RBA, implementation of these findings is a key concern for Shell.

For example, in relation to item 1) Interchange Fees;

- The RBA needs to ensure that “eligible” interchange costs are clearly defined to prevent card issuers maximizing their costs in each of the areas defined as “eligible”. Shell agrees with the exclusion of “ineligible” cost components such as bad debt, cost of funds and loyalty programs which have no place in the operation of an efficient payments system.
- Shell believes the role and authority of the “independent expert” in reviewing and monitoring these costs over time will be critical to successful implementation. Fraud prevention costs, for example, could be significant if banks chose to allocate the costs of chip-card programs to this category (as they have done in the UK).
- Shell assumes the “independent expert” will not be paid by either the card scheme members or the retailers, to ensure on-going independence. This is not referred to in the consultative report.
- Shell believes it would be beneficial if the “independent expert” could report from time to time to the Payment System Board on the level of apparent issuing costs compared to other issuers internationally.
- The RBA fails to mention whether the reduced interchange fees will be required to be passed on to retailers/merchants in the form of reduced Merchant Service Fees. Shell believes this needs to be prescribed to ensure absolute accountability by credit card schemes. Further, merchants should be offered an avenue of appeal to ensure they benefit fully from this regulation. Perhaps the Payments System Board of the RBA has a role to play here.

To ensure effective implementation of **all** of the proposed new standards, Shell believes it may be valuable to conduct a follow-up Payment System Board enquiry in some future timeframe to ensure the intent of these standards have been met in practice.

We also concern that the RBA has failed to address some important issues that were raised in Shell's submission dated 15th of September, 2001;

- The RBA findings give consideration to the issuer's costs however they fail to recognize that merchants/retailers like Shell also provide value in a credit card transaction. Shell Australia has made a significant investment in developing, testing, implementing and maintaining card processing systems through its retail network and these costs should be considered in a more holistic review of credit card costs.
- The RBA should give consideration to cross border acquiring. Cross border acquiring would enable merchants/retailers to enter into acquiring arrangements in other countries and negotiate with global or regional acquirers.
- Whilst the RBA has indicated that abuses of the Honour All Cards Rule, such as the debit cards being used as credit cards so the issuers may earn credit interchange revenue instead of paying debit interchange fees, must be stopped. Shell would prefer to see a stronger line taken to prevent this practice, or any similar practices, from continuing.

As a large player in the Australian card market, we believe our views represent well the retailer/merchant viewpoint, which should continue to be considered by the RBA.

If you have any questions, please contact our Card Development Manager, Sally Netting on (03) 9666 5173 or via email sally.netting@shell.com.au.

Yours Sincerely,

Bruce Rosengarten

Vice President Retail Marketing

Shell Oil Products East