



IAEP and 10 Free-Market Groups Urge E.U. to Reconsider Proposed Multilateral Interchange Regulation

December 16, 2014

To: Pablo Zalba Bidegain MEP
Olle Ludvigsson MEP
Marco Valli MEP
Bas Eickhout MEP

Dear Members of the European Parliament,

As representatives of a coalition of consumers and economic policy institutions in Europe and around the world, we are writing to call your attention to our strong concerns with the pending legislation related to Multilateral Interchange Fees (MIFs) and changes in regulation of the electronic payment system in Europe. Most important, on behalf of our members and the millions of consumers in Europe and across the globe who will be impacted by the changes to the current system, attached please find a petition signed by seventy-six thousand European consumers objecting to the proposed legislation and expressing the real concern that the MIFs reforms will result in higher costs and lower services for consumers.

Capping interchange fees has been tried in some countries around the world. Despite claims that these efforts were for the benefit of consumers, the real world results have shown the opposite to be true. In every instance, consumers faced higher fees for banking services, a reduction in benefits and services and saw no return in the form of lower prices from merchants despite promises by merchants and policy makers to pass savings to consumers. There has been considerable research done on the subject that we would be happy to share with you. Some highlights, with citations, are as follows:

- In Australia, consumers now pay as much as 50 percent more for their cards. Australian cardholders are now paying approximately AU\$480 million more in additional fees per year for their cards.¹
- Merchants in Australia have received a benefit of approximately AU\$850 million per year and have yet to show any evidence that savings were passed on to consumers as originally promised.¹



- In Spain, following interchange caps at the same level being proposed by the EU, there has been a 50 percent increase in annual fees for standard four-party payment cards. This has amounted to a total cost to consumers of €2.350 billion over a five year period.
- During the same period, Spanish merchants received a €2.749 billion windfall² and there is no evidence that even a fraction of these savings were passed on to consumers.³
- In the United States, retailers have saved \$8 billion per year yet consumers find themselves paying more for the same products while paying higher fees for traditional banking services and reduced awards, with one million people forced out of the banking system as a result.⁴ Again, no evidence exists that consumers saw any benefit from capping interchange fees.⁵

We are also concerned that some Member States have called for exempting three-party payment cards from the new law. Three-party cards typically charge significantly higher fees to consumers and merchants and are generally used by more affluent consumers. If these cards are exempt from the interchange fee caps, it is likely that issuing banks will favor these cards and push consumers and businesses into what will now be considerably more profitable cards. It is hard to fathom how exempting the cards that have the highest fees is in any way consistent with the premise of capping MIFs that is driving this process. Limiting options is a bad outcome but limiting options to more expensive and onerous cards seems counter to the entire rationale for the EU MIFs proposals and against the interests of everyday consumers in Europe. We strongly encourage you to avoid creating distortions in the market that will allow for the exploitation of consumers and businesses throughout Europe.

Finally, it is our understanding the new law will include provisions for reporting on the impacts of the MIFs and regulatory changes that are ultimately enacted. We are hopeful that you will strengthen the accountability for the new law by calling for rigorous study and reporting on consumer impacts. Our organizations are committed to standing up for consumers in Europe and abroad and will work to provide monitoring and reporting on consumer interests and impacts in an effort to ensure that a record is established an accountability is maintained.

On behalf of the seventy-six thousand petitioners attached to this letter, we urge you to consider consumers first and avoid interchange fee caps and regulatory approaches that increase costs and decrease services. As the EU aspires to a digital single market, policies should incentivize consumers to this transition. The current proposals would achieve the opposite and we hope that you would reconsider.

Sincerely,



Jonathan Isaby, Taxpayers' Alliance
Iain Murray, Competitive Enterprise Institute
Barbara Kolm, Austrian Economic Center
Zilvinas Silenas, Lithuanian Free Market Institute
Emmanuel Martin, Institute for Economic Studies-Europe
Grover Norquist, Americans for Tax Reform
David Williams, Taxpayer Protection Alliance
Phil Kerpen, American Commitment
Rory Broomfield, The Freedom Association
George Landrith, Frontiers of Freedom

¹ Robert Stillman, William Bishop, Kyla Malcolm, Nicole Hildebrandt, "Regulatory intervention in the payment card industry by the Reserve Bank of Australia: Analysis of the Evidence" (April 28, 2008) (p. 30).

² Juan Irazo, Pascual Fernández, Gustavo Matías, Manuel Delgado, "The effects of the mandatory decrease of interchange fees in Spain" (June 2012) (p. 39).

³ Michael A. Turner, Ph.D., "Reconsidering Interchange Fee Reform: Some Lessons from Spain, Australia, and the United States" (February 12, 2014)

⁴ Zywicki, Todd J. and Manne, Geoffrey A. and Morris, Julian, Price Controls on Payment Card Interchange Fees: The U.S. Experience (June 4, 2014). George Mason Law & Economics Research Paper No. 14-18. Available at SSRN: <http://ssrn.com/abstract=2446080> or <http://dx.doi.org/10.2139/ssrn.2446080>

⁵ Regulating debit cards, Plastic stochastic. (October 4, 2014). *The Economist*. Retrieved from <http://www.economist.com/news/finance-and-economics/21621882-capping-fees-card-transactions-has-not-worked-out-planned-plastic-stochastic>.