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## Standing Committee on Finance

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EVIDENCE

**Tuesday, May 12, 2009**

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**Chairs**

**Mr. James Rajotte**  
**The Honourable Michael Chong**

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## Standing Committee on Finance

Tuesday, May 12, 2009

• (1530)

[English]

**The Co-Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)):** Good afternoon.

Welcome to the joint meeting of the Standing Committee on Industry, Science and Technology and the Standing Committee on Finance. This is meeting number 16 of both respective committees, I believe. Pursuant to Standing Order 108(2), we are engaging in a study of the credit card interchange fees and the debit payment system in Canada.

I'd like to welcome all of the committee members who are here today. I'd also like to welcome our witnesses, who represent a number of organizations. These are the Canadian Restaurant and Foodservices Association, the Québec Hotel Association, the Retail Council of Canada, the Canadian Council of Grocery Distributors, Coalition québécoise sur les hausses de frais de transaction de carte de crédit et de débit, and finally, the Canadian Federation of Independent Business.

Before we go to the witnesses for their opening remarks, I believe there is a motion that Mr. Rota, on behalf of the industry committee, and Mr. Wallace, on behalf of the finance committee, will move with respect to the joint hearings this committee will hold over the next number of weeks. This motion was agreed to by all four parties in our subcommittee on agenda and procedure. It concerns dilatory motions.

Mr. Rota, would you care to read the motion into the record?

**Mr. Anthony Rota (Nipissing—Timiskaming, Lib.):** Mr. Chairman, I move that notwithstanding any routine motion or Standing Order, at joint meetings of the Standing Committee on Finance and the Standing Committee on Industry, Science and Technology, the chair shall not receive any substantive motions or dilatory motions.

**The Co-Chair (Hon. Michael Chong):** Is there any discussion on this motion?

(Motion agreed to)

**The Co-Chair (Hon. Michael Chong):** Thank you very much.

Without further ado, we'll begin with Madame Brisebois from the Retail Council of Canada.

I understand, Madame Brisebois, that you will be dividing your time among the various organizations you have appeared with. Subsequent to that, we will hear from the Canadian Federation of Independent Business. After that, we'll then open the floor to members for questions and comments.

Madame Brisebois.

**Ms. Diane Brisebois (President and Chief Executive Officer, Retail Council of Canada):** Thank you.

First, on behalf of the witnesses here today, we want to thank the joint committee for holding these hearings and for tackling this thorny issue.

The importance of these hearings cannot be overstated. They provide the opportunity to shine a light on the seemingly never-ending proliferation of higher fees and new charges from the credit card companies. These fees should be a major concern to the government because they hit at businesses and consumers alike. Following our testimony and that of other witnesses, we hope the committee will recognize the need for government to act.

In order to provide more time for questions, and since members of the coalition share the same concerns, with members representing more than 250,000 businesses from coast to coast, the following organizations have agreed to make a joint presentation: the Retail Council of Canada, the Canadian Council of Grocery Distributors, the Canadian Restaurant and Foodservices Association, Conseil québécois du commerce de détail, Association des détaillants en alimentation du Québec, and Association des hôteliers du Québec.

We're pleased to say that we have two witnesses with us representing business. They are Mrs. Brenda O'Reilly from Newfoundland, as an independent restaurateur, and Monsieur Louis-Robert Handfield, as an executive in the hotel business, who will also be on hand to answer questions.

The Stop! Sticking It To Us coalition came together in 2008, the vast majority of our members being small independent businesses in retail, hospitality, food services, restaurants, and other service sectors. They are extremely concerned with the rapidly rising credit card merchant fees and impending new debit card schemes that will be introduced by Visa and MasterCard. At the heart of the issue is Visa and MasterCard's duopoly, representing 94% of the credit card market in Canada, thus having the market power to force increasingly high fees for their services, as seen in recent months. Both merchants and consumers are paying the price.

Make no mistake about it, even credit card company executives view merchant fees as a cash cow, as you will see on slide 4. Allow me to quote the former vice-president and assistant general counsel for Visa International and Visa U.S.A.:

[Issuers] began to view the interchange reimbursement fee not as a revenue reallocation mechanism to ensure success of the system, but as a demand-driven pricing scheme to collect as much revenue from merchants as the market would bear.

• (1535)

[Translation]

**Mr. Gaston Lafleur (Spokesperson and President of the Conseil québécois du commerce de détail, Coalition québécoise sur les hausses de frais de transaction de carte de crédit et de débit):** The credit card companies will probably tell you that consumers don't pay the interchange. In fact, I would like to remind the committee that a representative of the Mouvement Desjardins, which is both issuer and acquirer, told the Senate Committee on Banking and Commerce, and I quote: "Consumers always end up on the hook for all costs associated with the payment service."

The coalition obviously isn't opposed to payment by credit card. This payment method is practical, secure and particularly valued by consumers. As businesses living from customer service, merchants must accept the payment methods that consumers choose. Merchants also understand that no service is free.

However, looking at the table that we are presenting to you, Table 6, you see that a very small portion of the fees paid by merchants go to processing of the transaction itself, only 13%.

[English]

**Ms. Diane Brisebois:** Economics 101 tells us that competition leads to price reduction, but this isn't the case in the credit card market. The credit card companies have no direct relationship with either consumers or merchants. Instead, they compete only for the business of financial institutions, which they do by offering high returns to issuers using other people's money. This is a complete reversal of the normal effects of competition. The harder they compete, the higher the fees.

The best way to look at how Visa and MasterCard set their interchange fees is to think of it not as competition but as an auction, paid with money extracted from merchants and, ultimately, consumers. The quote on slide 9 from Dr. Philip Lowe, Assistant Governor of the Reserve Bank of Australia, says it all:

[C]ompetition between these schemes creates upward—not downward—pressure on these fees. A scheme with a higher interchange fee paid to issuers is able to pay larger subsidies to cardholders.

There is no better way to explain why the market has been flooded with premium cards that carry higher interchange fees.

Over the past 18 months, merchants in this captive environment have seen double-digit increases, as seen on slide 9. By way of example, one of our discount retailers, which sells some basic grocery items and a mix of other necessities, has experienced fee increases in excess of 30%. These increases are coming at the worst economic moment, when retailers are lowering their margins and cutting their costs just to survive.

Think about it. In a tough economy, most businesses sharpen their pencils, cut costs, and cut prices in order to boost sales. Similarly, governments are acting to provide stimulus, such as Ottawa's two GST reductions and interest rate cuts by the Bank of Canada. Only the commercial banks and the credit card companies are going the other way, actually raising fees and adding new charges in the midst

of a recession. And who pays? Obviously it isn't the banks and the credit card companies. They are the beneficiaries. The people who pay are the businesses and consumers who are actually making the sales and purchases.

• (1540)

**Ms. Brenda O'Reilly (Chairman of the Board of Directors, Canadian Restaurant and Foodservices Association):** The proliferation of premium card fees is the biggest contributor to these increases. Starting last fall, both Visa and MasterCard introduced new premium cards with more rewards points for cardholders at no additional cost. What every restaurant operator knows is there's no such thing as a free lunch. Merchants are stuck footing the bill for these perks. For my businesses, these premium cards are 12% to 30% more expensive to accept than the standard card. Because the fees paid to banks are so much higher, issuing banks are actively marking them and even automatically switching consumers to them. Because the perks are so generous, cardholders are using them.

If these increased premium card costs were offset by these cardholders purchasing more, as suggested by the card companies, that would be one thing, but this is not the case. In fact, credit card usage is actually down over the same period. What we are doing is paying for higher fees and less business.

Slide 11 puts into context the size of the bite that these fees take, especially the newly introduced fees. The situation is particularly dire in the restaurant industry. Restaurants are extremely competitive, with very thin margins.

In Newfoundland, where I operate my restaurant businesses, the situation is the toughest in the country, with an average profit margin of 2.1%. For that return, we invest capital, pay rent and utilities, employ staff, buy from our fishermen and our farmers, and promote and advertise. That 2.1% return for the industry is lower than the 2.2% merchant discount rate charged to us as on some credit card transactions.

Don't get me wrong. We're not asking the credit card companies to take a haircut because the times are difficult. What we're here fighting for is an end to the gouging of fees by this credit card duopoly. What choice do we have in accepting these higher fee cards? In a word, none.

Through our merchant agreements we are required by Visa and MasterCard to follow the "honour all cards" rule, to take all their credit card offerings. It is hard to refuse a legitimate payment method chosen by the consumer, especially since that consumer is probably unaware of the detrimental impact on the merchant and the inevitable boomerang effect in higher consumer prices.

Even if merchants were allowed to decline such higher-fee cards, it would be next to impossible for one of our thousands of food service workers to identify them from among 200-plus credit card products, and it would be very difficult for employees to explain to the consumer why their particular card is not accepted.

[Translation]

**Ms. Danielle Chayer (Vice-President and Chief Executive officer, Québec Hotel Association):** I'm not going to top what my colleague from the Canadian Restaurant and Foodservices Association just said about small profit margins; however, I believe that the members of the joint committee, mainly those from the Industry Committee, can understand how tough times are in our sector.

What I can say is that the hotel sector is probably the one most dependent on payment by credit card, which is increasingly the operating method. Credit cards are mandatory for reserving rooms at hotels, and 95% of reservations are made by telephone or over the Internet. The balance of a stay is paid by credit card in 85% of cases, followed by debit cards and cash.

Visa and MasterCard believe that controlling 94% of the market isn't a problem since there is enough competition from other forms of payment such as debit, cash and cheques. Well, I can tell you that there is no such competition in our sector: credit cards are an integral part of the way we operate. That moreover is the case around the world. The hotel business can't survive without them.

The Quebec Hotel Association would like to tell you about the consequences of increased fees charged to merchants by Visa and MasterCard in our sector. I would like to draw your attention to one example, on page 14, of a rate structure that we have to deal with. This is a structure for one company. There's a different one for the other one. We went from a single fixed rate to an average of six variable rates depending on the type of card used, that is individual consumer, corporate, worldwide or premium, and the type of transaction, standard or electronic.

A number of our clients use a company or worldwide card, which involves higher fees. The majority of transactions are billed at the standard transaction rate, that is the highest rate, because the hotelier doesn't have the client's credit card in hand at the time of the reservation, which is done, once again, by telephone or over the Internet. The card is processed by a management system of the property. In our sector, this is a very common operating method that makes it possible to inform various services at the hotel which client has arrived. The system ensures high-quality client service.

At the end of the day, the various rates thus do not allow the hotelier to determine the amount to be allocated to the payment of transaction fees, since there is no tool for determining what type of transaction card was used. These various rates represent an average increase of 11.5% to 17%, as shown on page 15. For a single hotel, these fee increases represent additional costs varying between

\$11,000 and \$55,000 a year. Hoteliers currently pay these fees out of their profits, and increasingly out of reserve budgets. These fees cannot be indefinitely absorbed by the hotel; they will be passed on to consumers, whether or not they are the holder of a costly card.

Apart from the increase imposed on the client, we feel that the entire operational system in a business environment and key sector of the tourist industry is being affected and taken hostage. The hotel industry would like to live without it.

• (1545)

[English]

**Mr. David Wilkes (Senior Vice-President, Trade and Business Development, Canadian Council of Grocery Distributors):** So what is the solution? The coalition believes that transaction costs charged to retailers, whether on credit or debit, should reflect the true cost of processing, as is the case in Australia. Reasonable costs should be allowed, of course, plus a fair return on investment for card companies. But interchange fees should be capped at that level.

How does it work in Australia? The details are provided in our submission, but the highlights are as follows. The entire fee-setting process of the card organization is transparent to all stakeholders. A common benchmark has been established on allowable costs. The result in Australia is that interchange is capped at 0.5% or 50 basis points, producing a merchant discount rate of less than 1%.

We do refer extensively to the Australian model, but as you can see on slide 18, Australia is not the only country to act. The European Union has also moved to a cost-plus model on cross-border transactions. In fact, multiple jurisdictions are working to address the problem. The world is moving on this.

The coalition understands that Canada is unique and that considerable analysis is needed to produce a regime that is appropriate for Canadian circumstances. However, it is urgent that Canada get on with the task, and we urge the committee to recommend that the government develop a system of oversight to ensure fair pricing and competitive behaviour by the two card companies.

The Minister of Finance has the power to designate, and therefore regulate, payment systems in the country. The options on how to do that are detailed in our submission.

[Translation]

**Mr. Gaston Lafleur:** Now let's talk about debit cards.

The debit card electronic payment system is one of the most successful globally. It is very popular with merchants and consumers. It can represent 60% of transactions for some food retailers.

Interac is a non-profit association that reflects current processing costs. The system costs the retailer only a few pennies per transaction and enables consumers to access their funds quickly, safely and at low cost.

Visa and MasterCard recently announced that they are entering the debit market starting this year. It must be understood that Visa and MasterCard currently operate outside Canada's legislative framework for debit cards and outside the control of the Canadian Payments Association. So we are currently in a unique and critical situation for the future and for the development of financial services provided to merchants and consumers both in Quebec and Canada.

Visa and MasterCard say that their entry into the debit market will benefit consumers and merchants since it will provide more competition. In fact, this will be a reproduction of the alleged competition that currently exists in the credit card market in Canada, which is a simple bidding for business by the issuers of cards and credit card companies. This situation will invariably result in increased costs paid by merchants.

In addition, Visa and MasterCard intend to offer benefits to buyers so that their debit products have priority routing at the point of sale. This will be accompanied by aggressive distribution of these new cards by the issuers.

• (1550)

[English]

**Mr. Justin Taylor (Vice-President, Labour and Taxation, Canadian Restaurant and Foodservices Association):** We need only look to the U.S. to see how the two card companies suppressed efficient debit card services similar to Interac. Fees have since skyrocketed, and now include both flat fees and *ad valorem* percentage rates. We ask the committee to consider the following: why should the debit fees bear any relation to the size of transaction at the point of sale? The money is transferred from the customer's account to the issuer in real time.

It's clearly not a loan or a credit advance. How can Visa and MasterCard justify charging an *ad valorem* percentage fee? The answer is simple: because they can. They're unregulated. It's odd that Canada would contemplate going over to an unregulated U.S.-style system here, since those who are familiar with the U.S. system have expressed admiration for the Interac system we have in Canada.

Diane will talk about the solutions.

**Ms. Diane Brisebois:** If allowed to operate in Canada, these companies should operate under Canadian rules, such as those that exist for Interac through the Canadian Payments Association. Once again, the fee should be related to actual processing cost, plus a reasonable return on investment. There should be no room whatsoever for an *ad valorem* percentage charge.

In short, we need a system that provides a secure, successful, and affordable debit card system, a Canadian system. On Interac, we're aware of changes sought to their consent order, and we appreciate that some changes may be appropriate. We are concerned, however, that Interac might eventually desire interchange or a substantial increase in order to compete with Visa and MasterCard. So we continue to support a flat fee structure that reflects the actual transaction cost, oversight, transparency, and accountability. This recommendation applies to all debit schemes in Canada.

**Mr. David Wilkes:** The coalition has proposed practical solutions that reflect the uniqueness of our market. They can be implemented to better serve and protect hundreds of thousands of businesses and

Canadian consumers from coast to coast. There is often an attitude of resignation about rising fees and charges from banks and credit card companies. There are so many of them that there's no way for consumers or businesses to fight back. Actually, though, there is a way to fight back, and we look to these committee hearings as a vital first step in this regard.

In closing, our coalition members are humbled to be here. Indeed, we wrestled long and hard with this issue before seeking the government's involvement. First, we sought out commercial solutions. As associations, we have engaged directly with credit card companies to raise our concerns, but to no avail. Asking for regulation is not what we normally do, but in this case we are left with no other option. In our opinion, one role of government is to recognize when markets are not functioning properly and take appropriate steps to correct this malfunction. Now is the time to act, and we urge you to do so.

Thank you for this opportunity. We look forward to your questions.

**The Co-Chair (Hon. Michael Chong):** Thank you very much for your opening remarks. *Merçi beaucoup pour votre témoignage.*

We will now hear from the Canadian Federation of Independent Business.

**Ms. Catherine Swift (President and Chief Executive Officer, Canadian Federation of Independent Business):** Thank you very much, Mr. Chair.

My name is Catherine Swift. I'm president of the Canadian Federation of Independent Business, and I'm joined by Corinne Pohlmann, our vice-president of national affairs.

Because a lot of issues have already been mentioned that I would certainly agree with, I'm going to skip to page 5 of our presentation, our slide deck. We actually have two pieces of information we handed out. One was the slide deck and the other was one page of suggested questions we would hope you would consider asking to some of your other witnesses in this proceeding, because there has been a lot of confusion, obfuscation, misinformation, and lack of information on this entire issue. It's a complicated issue; it's not something you're going to get easily. I know, personally, I still continue to learn something new every day that I didn't know the day before.

To briefly summarize what CFIB has done, we basically started hearing exactly the same complaints last year about skyrocketing charges to businesses to process credit card transactions. We started to look into it, did some surveying among our members, and distributed so-called action alerts—a copy of which is included on page 5—to gauge the level of interest among our memberships. We've collected over 14,000, and we still get 1,000 a week, so obviously this is a very hot issue. The timing isn't great either, obviously, but I would say this would be a hot issue at any time. The fact that we don't have the strongest economy right now simply makes it that much hotter.

We also did some surveying among our members as well as some public opinion polling to see how the general public felt about this. On the credit card side, first, one issue was the rapidly increasing cost. The 30% figure that was mentioned earlier was one we heard very frequently within a very short period of time. The second one is the confusion and the lack of transparency, the proliferation of different kinds of cards, meaning a different percentage charge to the merchant. There is no way anybody can keep track of that, so you can get your bill at the end of the month and get a rude surprise. You can't run a business that way.

On the next page is a very brief summary of our survey results. It's not only the retail sector. Obviously, they're big users, but we have detailed here that every single sector of the economy is a significant user of credit cards. Here you can see all the groups—natural resources, retail, hospitality, and some of the groups you've already heard from. This is a very pervasive part of our financial payment network. You may have even heard recently that some universities have stopped accepting credit cards for transactions because they can't afford the drastic increase in fees. That's an unfortunate recent example of some institutions that aren't accepting them.

On the next page, we asked our business members which cards they do accept. Not surprisingly, the overwhelming dominance of Visa and MasterCard is very clear there. We don't have a competitive market. We know that, but that item puts some numbers on it.

The next slide is on which of the companies—the acquirers or the processors—you use for credit card processing. I might note that CFIB actually has an arrangement with Chase Paymentech, so I don't think this would represent the market writ large, but at least it gives you an idea of which of the processing companies our membership is using.

Skipping to the next slide, this is from one of our surveys of our members. We wanted to understand how difficult they believed understanding credit card fees was. As you can see, almost a quarter felt it was very difficult; another 46%, somewhat difficult; less than a third didn't find it difficult. So obviously, two thirds of the membership here are having trouble figuring out their credit card fees.

The next slide, page 10, refers to the same survey. In the federal budget earlier this year, the federal government included a proposal to improve the way banks and other financial institutions informed consumers on credit cards. We asked our members whether they thought this should be expanded to include how things are conducted with merchants. Obviously, overwhelmingly, they said yes.

The next slide is our public opinion poll. This was done of the general public. We simply asked if they would support or oppose tighter rules for the credit card industry. Again, the general public is also realizing that there's an issue here that needs to be addressed.

I'm going to speak to the recommendations very briefly because we want to leave a lot of time for questions. The first category, and you can read the bullet points underneath, shows clearly that we need enhanced oversight scrutiny of credit and the debit card industry, and we've suggested a number of ways how that could be accomplished.

- (1555)

The transparency and accountability is another area that's been mentioned previously, and we absolutely back that up. We have some specifics as to how we think that could be achieved.

Allowing merchants and consumers choice is another one. Merchants typically are forced to take all credit cards. They can't say they will accept this one, but they'd really rather not accept that one because it just doesn't work for their business. These contracts they sign require them to accept all cards. Again, there are some other specifics there.

Finally, the last set of recommendations refers to the debit card system. I will just support what has been said previously. We do not want to go to the U.S. model, where fees have increased astronomically. A debit transaction is not a credit transaction. There's no justification for having a percentage value of the transaction. We have a flat fee system here in Canada now that's worked extremely well. We should debate what system we want to have going forward. Do we want to continue the current system or do something different? But do not permit this percentage as a value of the transaction.

We've done a lot of work, actually, with some U.S. business associations, and it was very interesting. One comment they made to us was to not let Visa and MasterCard into debit. We were quite intrigued and even surprised by the very categorical nature of that statement.

We are very happy that your committee has opted to look into this important issue. It may be overdue, but because of a lot of things that are happening in the economy now, it really warrants a focus on it.

I'd mention too that we strongly recommend you call the individual banks before you. Having just the CBA, the Canadian Bankers Association, isn't sufficient. We think there are big players in this. They all have different strategies. We would really encourage you to do that to really get a good handle on the entire picture.

Thank you very much, and we welcome your questions.

• (1600)

**The Co-Chair (Hon. Michael Chong):** Thank you very much, Madam Swift.

Thank you to all the witnesses for your opening remarks.

Just so all members of the committee and the witnesses understand, Mr. Rajotte is chair of the finance committee and I'm chair of the industry committee. We're holding these joint meetings. So that members of this committee understand how we will conduct ourselves here at these meetings, I'll chair this meeting and Mr. Rajotte will chair this Thursday's meeting. We'll alternate between the two of us so that we can have some clarity and efficiency here.

We'll have about two hours for questions and comments from members of this committee to the witnesses.

[*Translation*]

We use both official languages.

[*English*]

If you need translation, the earpieces are available to you. I believe English is on channel one, French is on channel two, and the floor feed is on channel three.

We'll begin with Mr. McTeague.

**Hon. Dan McTeague (Pickering—Scarborough East, Lib.):** Chair, thank you very much, and thanks to all committee members and to witnesses. It's a very important day. I want to first of all acknowledge and thank the efforts of my colleague, Anthony Rota, and our party, for moving the motion in the industry committee and the complementary motions that have taken place in other committees. I think we all take this issue very seriously. We're now starting to get it, albeit for some of you, and those you represent, perhaps this has been a very painful ordeal.

I'd like to begin by trying get a better understanding more specifically, not for this committee, but for those who are watching this, those who have an interest in seeing Parliament unfold.

I want to hear from your perspectives, each and every one of you, specific details, ideas as to how your members have been affected. I appreciate the coalition of the CFIB coming forward. I want to hear what this has done for ordinary business in Canada and whether or not you perceive this to be a distortion that is impairing the proper and efficient running of our marketplace.

I'll start with you, Ms. Swift, if I could.

**Ms. Catherine Swift:** Obviously, a rapid and unexpected cost increase at any time is not a happy scenario. We had business members actually send us their monthly invoices that showed these 25% to 30% increases from one month to the next, thousands and thousands of dollars in any given month, naturally depending on the nature of that particular business and what it used credit cards for.

I think the equally important point was the confusion. You can't run a business when you don't even know one of your key costs on an ongoing basis. You're accepting cards and you don't even know what you're paying for, and then you get a bill at the end of the month and get a rude awakening. Those are the two bottom line

factors. There's no consultation. We know consumers are getting these cards unrequested in the mail. I got one. I'm sure a lot of you have got them. I thought gee, has my card expired? Because I had no idea just looking at it that it was a different type of card.

Something else that you might not be aware of, or maybe you are, is that the credit card companies tell us they're sending out these premium cards to high spenders. I got one in the mail the other day that was unaddressed ad mail. In other words, they had no idea; it was to the householder, basically. They had no data on my spending. I actually don't happen to be a big credit card user. So please don't buy that argument, that it's a very small slice of the market. They're being sent out willy-nilly. That's why you need the individual banks before you too, because they all have individual strategies.

• (1605)

**Ms. Diane Brisebois:** Let me add to this.

This in fact that would be an appropriate question to ask Visa and MasterCard. We certainly hope the committee will not accept the answer they usually give, which is that they don't share that kind of market information. Everyone knows the acquirers do.

The point I'm making is that a year and a half ago the premium card market represented 2% of the entire credit card market in Canada. Those were high spenders. Since then, Visa and MasterCard have changed the rules around who qualifies, but they told all industry associations that this was going to be a minor change and in fact people getting premium cards are high spenders. They're not just fun loyalty cards. They told us very clearly that you needed to qualify. To qualify does not mean that during a recession you go from 2% of Canadians who can qualify for a premium card to 35% of Canadians qualifying for a premium card.

What's fascinating is that we have a member like Giant Tiger, which caters to low-income Canadians, appear before the Senate banking committee, and they saw the use of premium cards go from 0% in March 2008 to 35% in March 2009. The point here is that it has a huge impact on business. Certainly there would be great examples.

I would encourage Brenda to talk about the impact it's had on her business in Newfoundland.

**Hon. Dan McTeague:** By all means, Brenda, go ahead.



**Ms. Brenda O'Reilly:** I have a couple of businesses in St. John's, in Ms. Coady's riding. This past summer I opened a new business, a microbrewery, restaurant, and pub. When I did my business plan, of course, I based it on the credit card rate being what I had negotiated with the Canadian Restaurant and Foodservices Association, and it was 1.57% at the time. The base rate has since gone to 1.64% for Visa and 1.71% for MasterCard. Since I opened, 71% of my sales—I've given Siobhan a copy and I know that James' office has a copy of my sales—have been from Visa and MasterCard. I can't afford not to accept these cards, as I'd like to. I don't accept American Express because the rate is so high, but of course I can't stop accepting other credit cards or I wouldn't have any customers. My blended rate ended up being 2.21%, which is not what we negotiated and certainly not what I budgeted for.

**Hon. Dan McTeague:** You weren't given notice of that change, were you?

**Ms. Brenda O'Reilly:** No.

**Hon. Dan McTeague:** What effect will that have on your bottom line as far as employing other individuals is concerned? What will it do in terms of other competitors in the region?

**Mr. David Wilkes:** Labour and labour cost is an issue as well. For me that worked out this year to be \$6,250, which equals 30 hours of work a week for an individual.

**Hon. Dan McTeague:** The consumer has a view that these new premium cards are good for them. I want to hear from Madam Brisebois, Catherine, and others on what it really means for consumers in the long run if these distortions are allowed to work their way through the system.

• (1610)

**Mr. David Wilkes:** Mr. McTeague, perhaps I could answer that question as well from a grocery perspective.

In our business we've seen premium cards increase. While we've seen overall credit cards increase from approximately 6% to 10%, within that 10%, premium cards now represent over half of those purchases, and they started almost at zero.

The impact of that to those in the grocery business, which has a very thin margin of business of 1% to 2%, is that the cost associated with those is being paid by everybody. Whether you're paying with cash, debit card, or a lower-cost credit card, the increasing and constantly spiralling cost of premium cards have nowhere to go but into the cost of the food for everybody, because we can't distinguish.

Mr. McTeague, the impact is that food prices are higher for everybody.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Wilkes. Thank you, Mr. McTeague.

Monsieur Laforest, you have the floor.

[Translation]

**Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ):** Thank you, Mr. Chairman.

Good afternoon and welcome to all the witnesses.

First I have a few comments, and then some questions. First of all, I want to congratulate all the members of this coalition and those of

the Canadian Federation of Independent Business. In fact, I believe you have sent a common message which is much easier for us to understand because you've previously worked on it and you have agreed on certain priorities.

Since we began looking into this matter, we have learned a lot, although I don't think we've learned everything. We're learning more every day about the credit card payment system, that there are issuers, among others. We knew that banks were involved, acquirers as well, which is a new term for me. With consumers and obviously the credit card companies, the merchant is doing business with a system involving five players. When you see that, you say to yourself it makes no sense that this isn't regulated.

This credit card payment system has been in existence for a number of years. However, I'm convinced that very few people in Quebec or Canada know it's not regulated. In my view, a majority of people imagine that a system as complex as this has regulations that, in some way, sets some major parameters; however, that is not the case.

The effort you are making will enable us to understand, first, that there's something nearly anarchic in this matter. You're making recommendations that I think are very interesting. The first is related to what I just said, that Canada—at least someone somewhere—should regulate the credit card payment system. Ultimately, it's always the consumer who has to pay more. Consumers are increasingly expressing their anger, which is hard to direct at someone, since they don't know who to turn to. As I'm telling you, it's a bit anarchic. They may think it's the banks that are making extreme profits; they may think it's the merchant or all the other people possible. They don't know who exactly. That's why we really have to shed some light on this point. The first step you're taking is very interesting in that sense.

In the recommendations you make, you're saying, first, that Canada must develop regulations and that they should be based, second, on what's been put in place in Australia. In Australia, have they had the time to analyze the consequences? Among other things, they reduced the interchange by a half a percentage point, I believe. Has that produced any operating results? Are there any people or institutions that have gone bankrupt because the Australian government legislated in this field?

**Mr. Gaston Lafleur:** Thank you for the question, Mr. Laforest.

Mr. Chairman, the approach that was adopted in Australia has definitely produced some results. However, on the one hand, it must be said that the studies that have been conducted to date have definitely not shown that there were negative effects on consumers or merchants.

On the other hand, if you look at some of the tables we've provided, especially at the end, there is a demonstration of the inflation-related impact: we've seen a certain reduction in inflation in the years that followed the program's introduction. However, I would say that there's not necessarily any causal relationship here. We've even seen a drop in inflation, then a subsequent rise.

In addition, we've also noticed that credit card transactions have been as frequent, and that the amounts of those transactions have risen as well.

Ultimately, that leads us to the conclusion that the introduction of regulations in Australia has made it possible to establish a framework for harmonious evolution. There has been no major decline in the use of credit cards, on the contrary. The statistics as a whole show us that there has been a gradual evolution.

**Mr. Jean-Yves Laforest:** In your third recommendation, you say that there should be more transparency and flexibility, among other things, so that associations, merchants can eventually decline certain credit cards. I think that's the case in the United States, as in Australia.

• (1615)

**The Co-Chair (Hon. Michael Chong):** Mr. Laforest, I believe Ms. Brisebois wants to go back to your question.

**Ms. Diane Brisebois:** Thank you, Mr. Chairman.

I simply wanted to add that it is important to note that, even if we take the Australian system as an example, a study should be conducted in Canada to ensure that the system improves and adjusts to our Canadian environment.

One of the suggestions that were made, even by Australian retailers, is that it should be ensured that all credit cards are represented in the system. Some say the mistake in Australia is that American Express and Diners Club cards were not previously regulated. That's the only change that I would suggest.

**Mr. Jean-Yves Laforest:** Mr. Chairman, I have perhaps a final question to ask, if I have any time left.

You're asking that there be more transparency, but I would like to know whether your groups have approached the credit card companies, in particular Visa and MasterCard, the acquirers and major banks. If that's the case, what answer did they give you?

**Ms. Diane Brisebois:** Do you really want me to repeat the answer we were given? In fact, we weren't given an answer. At the Canadian association, we hold meetings three times a year to which we invite representatives of the banks, credit card companies and acquirers. At the last meeting in September, the MasterCard people decided not to attend. We were surprised. When we request information and encourage transparency, these people simply tell us that they're dealing with software problems, that they can't answer our requests. Often our questions are ignored. We're really disappointed.

I'm sure other witnesses have comments to make on that subject.

**The Co-Chair (Hon. Michael Chong):** Thank you, Ms. Brisebois.

Thank you, Mr. Laforest.

[English]

Mr. Wallace.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chairman.

Thank you to our guests for coming today. I appreciate the opportunity. There are lots of questions on this side, so I'll try to go quickly.

I've never been in a retail business, so understanding what happens with your credit card is a new experience for me. I'm still not sure I understand it completely, because it is complicated.

You're here today about the merchant's cost, not what my card costs me in interest as a consumer. Is that an accurate statement? Okay. So you are charged an interchange fee every time a card is swiped in your store or restaurant. That's one issue. The other issue is the debit one. I'm going to avoid that because I don't have time for it today. Others may ask you about that.

You're telling us today you had a meeting with a credit card company. There are a number of players in the marketplace. There's the consumer. Then there's you. Then you have a deal with a payment processor acquirer, which is the middle person. Then there's the bank that actually issued the card—the issuer. Then there's the company on its own, like MasterCard. So there are really five players in the marketplace.

On the interchange rate set for you, is that an agreement between you and Visa, you and the bank, or you and the acquirer?

**The Co-Chair (Hon. Michael Chong):** Go ahead, Mr. Taylor.

**Mr. Justin Taylor:** The agreement is set. Almost all of the associations around the table have negotiated agreements with acquirers. The problem we're facing right now is that the interchange rate is set by Visa and the issuing banks, and then it's basically forced down the throats of acquirers and passed on to merchants.

**Mr. Mike Wallace:** A credit card company came to see me and tried to tell me that for the premium card they charge 1.5% per transaction plus an additional 0.2%. But I'm hearing from you that is not accurate. Where does that added amount come from? Is it from the bank or the acquirer?

• (1620)

**Mr. Justin Taylor:** The answer is almost all of the above. Visa and MasterCard set the interchange rate, which ends up basically being the floor rate for the transaction. The banks add a small rate to that and the acquirers add a small rate. At the end of the day, the rate the merchant ends up paying is a trickle-down effect from all of those players.

**Mr. Mike Wallace:** I've never seen a statement on the cost, since I've never been in the business. Could you provide the committee with an example of a statement? You can black it out if you need to. Do you have a copy with you? If you have one, leave it with the clerk. I'd like to see that circulated. I'd like to have it when we talk to our friends from Visa and MasterCard.

One issue I want to talk about briefly is the opportunity to take cash. In some businesses it can be difficult—hotels and airlines. I understand—don't get me wrong—but there is that opportunity. One of the credit card companies tells me that merchants are free to offer discounts to consumers who pay with cash.

Is that an accurate statement? Could you, in your restaurant or retail store, have a sign saying that if you pay in cash the item will be 2% cheaper? I understand they make you sign an agreement saying you can't do that.

**Ms. Catherine Swift:** No, that used to be the case, but now they are clarifying this. I think in part that's because of the scrutiny we're putting on these types of issues right now. Yes, that is what their testimony has been before the Senate committee that looked into this. I suspect you'll get the same answer from them.

**Ms. Brenda O'Reilly:** However, with that said, I can't afford to give a discount to accept cash. Our profit margins are so thin as they are, so for us to pass on a discount to accept cash, you'd have to give a fair discount.

**Mr. Mike Wallace:** It's simple math that if I came in with a premium card, you'd be charged 2.5%. But you don't know who has a premium card and who doesn't. That's really the bottom line as to why you can't give that discount. I could be using my regular card, which, by the way, I suddenly heard this week from my bank is down to 6.5%. Very interesting. Anyway, you can't tell, and it makes it difficult for you to do that.

Another question, and I don't mean to be rude, but some of you from the retail group have your own cards. I'm assuming there are members of your organization, Canadian Tire or others, who have their own cards. Do you internally charge your own transaction fee? How does that work?

Secondly, we heard from you last year when the dollar was above par. We were talking about prices and you said government should get out of your way, and who were we to tell you about pricing. Now you're asking us to get involved here. It's a little bit tricky that on one hand you don't want us involved, but on another hand you do. I'd appreciate a comment on that.

**The Co-Chair (Hon. Michael Chong):** Madam Brisebois.

**Ms. Diane Brisebois:** It's my pleasure to comment on that. In fact, the government was not silent on the price of goods in Canada. We remember a moment when the minister took a book and compared the price between—

**Mr. Mike Wallace:** But neither was your organization.

**Ms. Diane Brisebois:** So was our organization, indeed.

I think it's important to note, first of all, that the retail market is a competitive market. A consumer can choose to shop in thousands of stores, eat in thousands of establishments. That's the number one comparison. With Visa and MasterCard, merchants don't have that opportunity.

Let me clarify. Visa and MasterCard set the interchange rate and also determine if other fees will be passed on. There's an assessment fee and now there's a new foreign card fee. So if I'm a merchant in Niagara Falls, Canada, all of a sudden, all of my transactions from my neighbours in the U.S. will be charged a higher fee, for whatever reason.

I think we need to clarify the interchange. The retailers do not negotiate. They don't even generally negotiate with the bank; they negotiate with the processor. The only thing they negotiate is the processing fee. Everything else is non-negotiable.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Brisebois.

Mr. Thibeault.

**Mr. Glenn Thibeault (Sudbury, NDP):** Thank you, Mr. Chair.

I want to thank everyone for coming today because I think this is our opportunity to take that one step forward to stop the unfair practices that many of the credit card companies are implementing on merchants and on our consumers.

I'm going to jump into what my colleague Mr. Wallace was speaking to. He was talking about the opportunity for someone to come in and pay cash. But I thought I heard loud and clear from you earlier, and from some of my other colleagues, like CIPMA, who have mentioned that the price of interchange fees is included in the cost of most products. Did you not say that earlier?

• (1625)

**Mr. David Wilkes:** Yes, because we can't distinguish, and, as Brenda indicated, because at the end of the month you get a bill, there is no predictability in those aggregate costs. So you do have to make the assumption on costs that premium cards are going to influence the overall cost of goods.

**Mr. Glenn Thibeault:** So as we see the costs—these interest rates for your interchange fees continue to rise—consumers will ultimately see these costs rise because it will be put onto the price of the products. Correct?

**Mr. David Wilkes:** The short answer is yes.

**Mr. Glenn Thibeault:** Perfect. I like hearing short answers so that I can get through all of my questions.

Now specifically with CFIB, I had the opportunity of meeting with Doug Bruce last week. We did a one-hour talk show about credit card fees and merchant fees. He was saying, and correct me if I'm wrong, that in Canada there are 19 different interchange fees that all businesses will have to pay.

**Ms. Catherine Swift:** Yes, that's correct. There used to be three. Over the last year or so, that has proliferated to 19. By the way, because we're looking at the U.S.—they went to some of these places long before we had to deal with them—they have over 100 in the U.S. This gives you a bit of an idea of where this could go.

Yes, the notion of any retailer—notably a small one, but any retailer—being able to keep track of what it is they're supposedly paying for is becoming impossible.

**Mr. Glenn Thibeault:** Looking at one of the documents you provided that was presented to me earlier today, of the 2.4 million businesses in Canada, I'd say about 97% of these 2.4 million are small or medium-sized. They have up to 49 employees. These fees are going to hurt our Main Streets. If we continue to see these fees going up, are we going to actually have small and medium-sized businesses where we can go in and use credit cards?

**Ms. Catherine Swift:** Well, there really isn't much choice. People mentioned earlier the notion that credit cards and debit cards have become an absolutely rock solid part of our payment system. You can't see ever going backwards, for all kinds of good reasons. And there are certainly benefits. Nobody denies that it's good not to have to handle cash. There are absolute benefits provided.

We have had some of our members protest. They wanted to do cash only sales. In some businesses that might be feasible, typically on small-ticket items and things like that. But it might be worth knowing that in the U.S. a number of years ago, when some of these trends first started happening there, Wal-Mart actually refused to accept MasterCard for a while as a protest. But even Wal-Mart, the most humongous retailer on the planet, had to go back and accept MasterCard. So what chance is some little guy on Main Street going to have?

**Mr. Glenn Thibeault:** Fair enough.

Sir, go ahead.

[Translation]

**Mr. Pierre-Alexandre Blouin (Public Affairs Director , Association des détaillants en alimentation du Québec, Coalition québécoise sur les hausses de frais de transaction de carte de crédit et de débit):** We surveyed our members to gather various types of information, in particular on rates and percentages of payments made using each of the payment options. Of our members operating small establishments, both convenience stores and specialized food stores, 31% refused to accept payment by credit. I believe that that in itself is quite eloquent. For them, there is simply no way to do business with credit; it's not profitable.

[English]

**Mr. Glenn Thibeault:** That's a perfect segue to my next question. More and more small and medium-sized businesses—I've been talking with them—want to stop taking the premium cards because of the costs. However, if they start saying they can't take premium cards, do they have an option of getting out of the contract they signed?

**Ms. Diane Brisebois:** Well, no, because here are two problems for a small business, or any kind of business. Number one, the moment you sign a contract with your processor to accept Visa cards, you must accept all their cards, including MasterCard. They have an

“honour all cards” rule. In fact, MasterCard is now going to be introducing a super-premium card. God knows what that means. So that's the number one issue.

Number two, if I'm a business, there is no way I can tell which card you're giving me anymore. They all look gold now, or silver, and no one knows. Personally, as a consumer, why should I? With the exception that I may have a few loyalty points or I may have lots of loyalty points, I have no idea. The merchant doesn't know either, and the customer can't say and the merchant doesn't identify it. It will get even worse next year as we go to the chip. While the chip is good for security reasons, most of the devices will be hand-held by the consumer. The consumer will do the transaction on his or her own, so there will be no interaction. Even if there were a way of identifying them, you won't be able to identify them at all, because you won't even come into contact with the card.

• (1630)

**Mr. Glenn Thibeault:** What are the costs? If I were a small business and said, “You know what, I've had enough of credit cards”—even though it's 71% of your business and there are fees, what is it to get out of that?

**Ms. Diane Brisebois:** I think we would all agree—both our Quebec coalition and the national coalition, and certainly the CFIB—that for most small businesses it would be disastrous if they just walked away from their credit card business. At the end of the day, as consumers, we all find credit and debit very useful. If I go to a merchant who is not using a method of payment I like, I'm going to go to another merchant, thus the competition in the retail marketplace.

**Mr. Glenn Thibeault:** The idea of being told to shop around or not use your card in this day and age really doesn't make any sense.

**Ms. Diane Brisebois:** No, it's impossible.

**The Co-Chair (Hon. Michael Chong):** Go ahead, Mr. Taylor.

**Mr. Justin Taylor:** It especially doesn't make sense in tourism-based industries. Consumers might not necessarily have the cash on hand to afford a full-course meal in a restaurant. They're travelling to Newfoundland on vacation and they only have the credit cards to pay for it.

So for some very small operations, this might be viable, but for the vast majority of our members it's absolutely not viable.

**The Co-Chair (Hon. Michael Chong):** Thank you very much, Mr. Taylor and Mr. Thibeault.

We'll go to Mr. Rota.

**Mr. Anthony Rota (Nipissing—Timiskaming, Lib.):** Thank you, Mr. Chair. I want to thank all the witnesses for coming out today.

Having been in the retail business, I can understand what it is. You set your cost with a fixed rate and you want to know what you're going to. As soon as that rate starts being variable, it really affects what you're going to charge and you pretty well have to raise your prices, which eventually does affect the consumer in the end. When it's variable by as many as Ms. Swift mentioned, a hundred different rates, you really don't know where to set yourself. That was one of the big concerns when this issue came up.

One of the things I find very interesting is that you talk about transparency and disclaimers. You talk about consulting. As a former president of the local chamber of commerce, when I have business coming up asking for regulation, I start to ask questions and wonder.

This is a topic that has been around for some time, and you're bringing up terms such as consulting, transparency, disclosure. Obviously, as organizations, you have dealt with the Bankers Association, the Visa and the MasterCard. What has been the major hurdle to reaching some agreement up until now? Why has there been nothing there? We try to leave it on its own, and you want to make sure that business takes care of itself, but why are you here today, and what results have you had from talks or attempts at talks to deal with issuers?

**Ms. Catherine Swift:** I'll just echo what Diane said earlier. We also met, and without political pressure by somebody who could inflict some pain on these companies.... There wasn't movement; there was some disclosure, but again, if you get handed a monstrosity of a handbook with all kinds of fine print and so on—and often the contracts our constituencies are signing look like this. They're very difficult to get. So you can say the information is there, but it's presented, to my mind, in a deliberately confusing way. They've only really been forthcoming since the Senate and now this committee agreed to have hearings.

On those contracts we were talking about earlier, conditions can change. It's the acquirers who are the meat in the sandwich, the middlemen. Fees can change on those contracts the merchants have signed, and if the merchants don't like it, there's usually a big fat exit fee to get out of them. This market, really, because it has no oversight—and it does have oversight in just about every country around the world, by the way—has basically had it all to themselves. There hasn't been any push-back. And you're right. We don't typically call for regulation at all, but this isn't a competitive market. We effectively have a duopoly, and they're also foreign-based multinationals, where Canada is never going to be their top priority.

We have a banking system that's very concentrated, but I think it's advantageous that those are Canadian banks because at least they do have some stake in what happens in the Canadian economy.

So I think for all of those reasons, yes, it's atypical, perhaps, for us to be calling for...whether it's regulation, whether it's better oversight. We're recommending maybe an agency somewhere. In Australia it happens to be the central bank that is tasked with overseeing. It could be the Bank of Canada. They've already done some research on this issue. So it could be the FCAC, potentially, as

well, but in any event, some regular reporting is required on these companies.

•(1635)

**Mr. Anthony Rota:** So with the regulation that you're requesting, what you're telling me now is that they have been transparent over the last little while or the last couple of months, since we started these inquiries. Now you really have no faith that you will come to an agreement or that an agreement will be maintained, once an agreement is achieved, should it come about.

[*Translation*]

**The Co-Chair (Hon. Michael Chong):** Ms. Chayer.

**Ms. Danielle Chayer:** Thank you.

In our sector, since credit cards are really the way we operate, we tried to meet with the Visa people, but through our acquirer. We wanted to explain to them that, in the current situation, our entire operating method was affected and that this represented thousands of dollars in costs. Those people were very polite, but it was very brief. The whole thing led to a dead end. The message boils down to this: there are costs, increases, and we have to bear them. No discussion was possible.

In our sector, a number of associations or brands have agreements. We can't determine how one establishment whose sales are higher than those of another can have higher costs. We're trying to link that to the type of transaction, but we can't really establish a framework that enables us to understand the principle. We also find it hard to understand why, for a \$150 hotel transaction, it can cost as much as 60¢ more for a premium card than an individual card. There's no loan. It's the same amount and the same type of transaction. There's no more handling. You don't swipe the card twice. However, there are fees, and these people have no explanation for us on that subject. We can only accept the situation. It's hard for us to pass the cost onto consumers. Indeed, as a result of the economic crisis, tight competition among hotels is making us lower prices. This summer, the situation will be tough for the tourism industry. We won't be able to increase rates indefinitely.

**Mr. Anthony Rota:** So there wasn't really any discussion: the situation was simply imposed on you.

Thank you very much.

**Ms. Danielle Chayer:** That's exactly what's happening, but we tried to do something about it.

Thank you.

**The Co-Chair (Hon. Michael Chong):** Thank you, Ms. Chayer.

Ms. Brisebois, go ahead please.

[English]

**Ms. Diane Brisebois:** I'd like to clarify that there's no transparency. There has been, seemingly, a bit more discussion with Visa and MasterCard. But in fact, at a meeting, when we asked why they were introducing all these new fees, the answer was "Because we can."

I think that would explain the relationship that exists.

[Translation]

**The Co-Chair (Hon. Michael Chong):** Thank you.

Mr. Bernier, go ahead please.

**Hon. Maxime Bernier (Beauce, CPC):** Thank you, Mr. Chairman.

I also want to thank the witnesses who are before us today. We're dealing with an important question. Everyone, at least most Canadians, has a credit card, I imagine. I would like to understand a little about the problem, since you're asking us to make regulations.

You know that I prefer deregulation to regulation. The issues really have to be important for it to be necessary to impose regulations, especially in the case of business people, as was said earlier. Business people usually don't want to have the government on their backs. However, you're asking us to intervene. In my opinion, something must have been causing a problem for years for all the businesses you represent.

In terms of regulation, one of the solutions you're proposing is transparency, no one can be opposed to transparency. I have here the recommendations of the Canadian Federation of Independent Business on the subject. I'm sure you're in favour of them.

Furthermore, you're telling me about the Australian model, and I would like to know a little more about that matter. I believe the regulation there goes beyond mere transparency. They regulate the fees and costs that credit card issuers apply. So we're starting to talk here about price-setting by the government. That's the proposition you seem to prefer.

In short, I would like to be given a little more detail on the Australian model and have it explained to me why we should adopt it. With respect to the recommendations on transparency, I've read them. I entirely agree with you on that point.

My questions are for all the witnesses. Who wants to answer?

• (1640)

**The Co-Chair (Hon. Michael Chong):** Mr. Lafleur, go ahead please.

**Mr. Gaston Lafleur:** Thank you, Mr. Chairman.

I believe we've quite clearly demonstrated that, in the current context, we have no bargaining power. In a situation of healthy competition—and I use the word "healthy" because it's important in the present circumstances—parties can negotiate and market forces can operate. However, no one around this table could claim that we are in a situation of healthy competition, and thus that market forces can operate.

When we have an adhesion contract, it means something, in civil law back home. That implies that there is a contract and that you

sign. That's the only law we have. You have to meet obligations. Otherwise, the card can be withdrawn. We're telling you clearly that our consumers and we ourselves consider that the use of credit cards has value. We respect that fact. We know the extent to which this payment method is used.

Regulation would help create a framework within which businesses wishing to compete with the financial institutions could continue to do so. However, as regards the interchange fees, there would be assurances that they are indeed costs related to those products, and not percentages that ultimately can have an inflationary effect. I'm going to give you an example. Gasoline prices substantially increased last year. They moved up from 80¢ to \$1.48 a litre. However, the convenience store that sells gasoline receives 2¢ or 3¢ per litre sold, regardless of the value of the litre, but the cost of the transaction by credit card, which he must bear, is based on the value of the transaction. When that convenience store sells 50 litres of gas at 50¢ a litre to a consumer, the consumer pays it \$25. Multiply that amount by 2% and you get 50¢. However, if the price per litre climbs to \$1.50, the convenience store still receives only 2¢ per litre sold and has to pay \$1.50 in fees. That's a big increase.

You absolutely have to understand that our businesses want to continue using credit cards, but that that will have to be done in a context where it is possible to apply regulations so as to ensure that the costs paid are used in calculating the interchange fee. We haven't talked about debit cards, a very important issue.

**Hon. Maxime Bernier:** Do you want to add something?

**Ms. Danielle Chayer:** Indeed, people very rarely request regulation in the business environment. Except that, less than a year ago, there was a single fixed rate, which had been the same for 20 or 25 years. In a few months, we went to various rates that complicated our lives and that are now much higher. We still can't understand what that money is used for. Sometimes we get the impression it's to pay the marketing costs of the companies that want to go after even more card users, but, ultimately, it's really the merchants who pay. It worked before, but it doesn't work now and they don't want to hear what we have to say. That's why we're appealing to you.

**The Co-Chair (Hon. Michael Chong):** Thank you, Ms. Chayer.

Thank you, Mr. Bernier.

Mr. Vincent.

**Mr. Robert Vincent (Shefford, BQ):** Thank you for accepting the joint committee's invitation to come and testify today. We haven't yet talked about debit cards. This is the opportunity to do that because that's another problem we see on the horizon.

We know that Interac requested the Competition Bureau's consent to authorize the restructuring and for it not to be a non-profit organization or association, but to be a for-profit entity.

So the problem will take another shape for you. If Visa and MasterCard decided in 2009 to offer a debit card and Interac decided to become a for-profit entity, what would be the impact of that? Currently there is an impact on credit cards, but there will be an even greater one on debit cards. What impact will that have on your associations and businesses?

•(1645)

[English]

**The Co-Chair (Hon. Michael Chong):** Mr. Wilkes.

**Mr. David Wilkes:** There are a couple of questions there. With respect to the Interac consent order and looking to the Competition Bureau to restructure it, we recognize that there is some need for Interac to update their decision-making models to streamline the way they do things and the way they go to market.

We believe everyone in the debit business must play by the same rules—whether it's Interac, Visa, or MasterCard. The Canadian Payments Act has protected the Canadian debit system in a unique way. It's the envy of the world, and we should ensure that we do not lose that uniqueness and efficiency, which has become part of the way Canadians use debit cards.

Our first recommendation would be to ensure that there's a level playing field. Our second recommendation is that there be no *ad valorem* on any debit mechanism.

**The Co-Chair (Hon. Michael Chong):** Madam O'Reilly.

**Ms. Brenda O'Reilly:** If they base the debit transaction on a percentage, looking at what I did last year in debit, which was 17% of my sales, it would actually cost me \$4,500, according to the rate that Visa offers me right now. I'm assuming that it wouldn't be anything less than that, and I'm assuming that debit costs would go up if they were on a Visa debit card. It's a real cost, and it means about 20 hours a week of employment and another extra cost that we can't afford.

**Ms. Catherine Swift:** We agree that at a minimum we should never go to an *ad valorem*, a percentage of the value of the transaction. There's no justification for it. It is simply a money grab. Our American confrères recommended that we not permit cards that have both debit and credit capability, because it causes more confusion to the consumer and the merchant about the cost of the transaction. Once again, you get the surprise at the end of the month.

We have to devise a “made in Canada” solution. But if Interac goes for-profit, could it then be bought out by Visa or MasterCard? If so, we could lose our Canadian player in the mix that has served us quite well. A lot of thinking has to be done before Interac is permitted to go for-profit, and I would say even before we open the doors to let Visa and MasterCard into the debit market holus bolus, which is what they want to do very soon.

[Translation]

**The Co-Chair:** Thank you.

Mr. Blouin.

**Mr. Pierre-Alexandre Blouin:** I'm going to show you how fees have increased using a percentage rate. That's what's in store for us now. From 2007 to 2009, in the past two years for all retailers, credit card fees have risen an average of 37%. Most transactions are conducted by debit card. If you do the calculation, it's quite clear that the losses are major. For a supermarket, a fee increase in the order of 37% represents \$66,000, and \$7,700 for a medium-size grocery store. Those are very large fees.

We can't afford to have credit fees rise even higher. For some very large businesses, those fees can even reach \$125,000. We can't

transfer those fees overnight. We have to recover the money somewhere.

**The Co-Chair (Hon. Michael Chong):** Thank you, Messrs. Vincent and Blouin.

Mr. Van Kesteren.

[English]

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Mr. Chair.

Very quickly, Mr. Wilkes, you mentioned the debit system here, and you wanted to see some type of system that mirrors that. But isn't that voluntary? Isn't the pricing system voluntary in our debit system? That's not regulated by the government.

**Mr. David Wilkes:** Under the current debit system, as regulated under the Canadian Payments Act, the fees are defined by the transaction costs.

**Mr. Dave Van Kesteren:** Right. I think we need to make that clear.

I, too, am a lifetime member of your organization, as well as CFIB, and like Mr. Bernier, I'm very leery about regulations.

I'm looking at your first slide. If we dissect this, we can see that the majority of small businesses have, interestingly, one or fewer than five employees. It goes right down until you get into the 20 to 49. I guess what I'm saying is, how many of that majority—probably three-quarters—would agree with this position? Do you have those statistics? You do have those? I'd just like to see those statistics.

•(1650)

**Ms. Catherine Swift:** Yes. Our pie chart on page 10 shows the number who believe that the federal government expanding an approach.... By the way, we're not necessarily recommending regulation. We wonder if a proper process to just have a reporting relationship.... It doesn't have to be regulation per se. We're not saying that's necessarily the way to go. We do think we have to properly understand what's going on here. We believe the credit card companies and others have gone out of their way to confuse what's going on here. We're starting to get to the bottom of it, which is good, and we're understanding a lot more. They're not very comfortable with that, which speaks volumes to me. The federal government did include this proviso about consumers in the last budget, and we really felt that we wanted to expand that to merchants.

We did, however, also ask our members—and it doesn't happen to be in this presentation, but we can get it to you—virtually the same question we asked the general public, which is shown on page 11, and the responses were virtually identical.

So, yes, you're right, our constituencies are not typically ones that say "regulate, regulate" for anybody. Back in the early nineties, some of you may recall, we actually put out a call regarding chartered banks because small and medium-sized firms were being treated very badly. By the way, to their credit, they're not doing as much of the same bad stuff this recession. We actually asked the industry committee to have the banks come before them on a regular basis and—you know what?—just that requirement meant better data, better understanding of what they were doing, and better practices by the banks.

There don't necessarily have to be hard and fast rules.

**Mr. Dave Van Kesteren:** I agree with that. I remember those days, and I was part of that survey as well.

The point is, though, I also remember a time when the credit we wrote off was a whole lot higher than it is today. I think we have to recognize that too, that credit cards have removed a portion of risk in business. As well as that, they've made things a whole lot easier.

If the majority of the public wants us to do this thing, obviously governments will act, but I think we need to dig a little bit deeper. I feel there are some things that we are not....

My final statement would be that it's somewhat akin to having me pave my stone driveway because the neighbour's kid is throwing stones through my window. Isn't the real problem the fact that Canadians are addicted to credit and we have huge credit debt? As a result, the credit card companies have to protect themselves, and this is one of the ways they're protecting themselves.

**Ms. Catherine Swift:** I think what we're looking for, though, is transparency. One of the things that's happened in Australia, because they were restricted in terms of the interchange fees they could charge, is that they have started offering a plain vanilla card. Then if you as a consumer want the premium card, there is a fee for it. In other words, they are actually charging the person who should be paying and should be understanding. It's like having a tax that should be dedicated to what you want to spend it on. What we're getting here is such a bunch of confusion that nobody knows who's paying what.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Swift.

I think Madam Brisebois has something to add.

**Ms. Diane Brisebois:** Yes, I'd like to add to the question.

I'm a bit concerned that we're talking about transparency here, believing that it is going to solve all the problem. While our banks are indeed chartered Canadian banks, Visa and MasterCard are not Canadian companies, and in fact have made an art form of ensuring that even if you think you are getting transparency, you're not.

Let's be clear: they represent 94% of the market. They are, in fact, controlling the market. They do understand and promote the use of credit cards in establishments, so it's extremely difficult to walk away from this, or to assume that you can invite Visa and MasterCard before the committee on a regular basis so they can behave.

At the end of the day, they are charging, and will continue to charge, unless there are regulations in place.

• (1655)

**The Co-Chair (Hon. Michael Chong):** Thank you very much.

Mr. Thibeault.

**Mr. Glenn Thibeault:** I'll jump in right where I left off earlier. I had a question specifically for the two people from the restaurant association.

We were talking a lot about Main Street and the small and local businesses in our community. In your opinion, what kind of impact will the unfettered, unregulated, credit card interchange fees have on the restaurant business, because I know the margin there is so small, because of rising prices and restaurants having no choice in changing those prices? Can you expand on that a little bit for me?

**Ms. Brenda O'Reilly:** It will have a dramatic effect on the restaurant industry because our margins are so thin or low, particularly in Newfoundland. The rate I'm paying for Visa and MasterCard is higher than the average profit margin in Newfoundland.

I actually brought all of my stuff. I have my merchant agreement, statements, and the whole thing. They are charging my particular little business 15 different rates. Not a single one of them is the rate I negotiated. So it's really hard for restaurants to keep up with that—though on my part, I am involved and am keeping up with it. But most operators are working in their restaurants; they don't have time to be working in their offices. They're out with their customers or they're out trying to grow their business. A lot of times they are front-of-house people and not necessarily back-of-house people; this is creeping up on them and they're not getting time to react until it's too late, and then they're out of business.

These are real jobs all over Canada. We're in every community in Canada. We're the backbone of most small towns and we are big employers, and it's having a dramatic effect on our industry.

**Mr. Glenn Thibeault:** I'm going to make up a number here. So if it's a dollar you'd be making off one of these and you're actually having to pay out 60¢, that ultimately impacts whether or not you can expand your business and hire more people.

**Ms. Brenda O'Reilly:** Exactly. It all works out to be dollars and cents and labour, because we only have two choices or things we can control in our industry: the cost of our goods sold, and our labour costs, generally speaking. Labour costs are getting harder and harder to manage every day, with increased minimum wages and labour shortages and everything else. And then you have the cost of your goods sold and the price of gas, and commodity prices are going through the roof. We just can't keep up with it. Ten years ago, when I joined this association, the profit margin in Canada was 10% in our industry. Today it's 3.2%.

**Mr. Glenn Thibeault:** So keeping that in mind, what do you feel would be a fair interchange fee? How do you see us implementing that?

I'll open this up to everyone, but I'll let you answer first.



**Ms. Brenda O'Reilly:** For the volume of sales that we do, I would think that somewhere around 1.5% is a fair interchange fee. It's no hassle to them; we process it and look after all the paperwork. It's all transfer money; there's no one touching money.

Based on the volume we do, our industry is something like a \$454 billion industry in Canada. The amount we process in my restaurant alone is 71%. I can only imagine that in a lot of restaurants, particularly in fine dining, it's more like 95% or 98%. For caterers it's basically 100%. So we're their biggest customers.

**Mr. Glenn Thibeault:** I'd offer that same suggestion or question here.

[Translation]

**Mr. Pierre-Alexandre Blouin:** It's hard for me to answer because I don't know the system costs. Costs are currently very well put together. The credit card companies, the card issuers and all the businesses that bill us fees... We have final costs. We're billed a rate or an amount that we have to pay on an invoice and we receive very little explanation.

You ask me what their profit margin is. I can't tell you. It's normal for those companies to make profits, but we want to make some too. The example cited earlier is fairly clear. If our payment rate on a credit card is higher than our profit margin on a product, we might as well shut down. I don't understand how you can let that go.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Blouin.

Mr. Wilkes.

[English]

**Mr. David Wilkes:** Mr. Chair, I'd answer Mr. Thibeault's question very directly. We propose that the Australian model offers guidance in this. We've indicated that transaction costs plus a fair rate of return should be what that interchange fee looks like. We believe we need to understand what goes into those transaction costs, and that equation really becomes what a fair fee is.

It's not a multiplicity of charges. It's not a range. To ask us to sit here and sort of guess, if you will, is not what we're coming to do. We're not here to negotiate a fee. We're saying we need a new system and a system that is based on the actual cost plus a fair return, as has been done in other jurisdictions.

• (1700)

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Wilkes.

Mr. Dechert.

**Mr. Bob Dechert (Mississauga—Erindale, CPC):** Thank you, Mr. Chair.

Thank you, ladies and gentlemen, for your remarks this afternoon. I know in the past a key element to the success of our economy has been a strong retail sector and a consumer-led economy. I certainly know that as we recover from our current economic challenges, we don't want to do anything to dampen the enthusiasm of consumers to spend and to grow our economy.

In representing a place like Mississauga, I also know how important small business is to all Canadians, including new Canadians, who often start small retail businesses as a way of making a start in this country. Can you tell me if your members are

restricted under their contract with the credit card companies from disclosing the fees they pay to the credit card companies? Can you describe that for me?

**The Co-Chair (Hon. Michael Chong):** Go ahead, Madame Brisebois.

**Ms. Diane Brisebois:** In fact, yes. If a retailer signs a contract with the processor to accept either Visa or MasterCard, the contract itself is very specific. They cannot inform the consumer of the fee they're paying to accept a card. They cannot encourage the consumer to change the card, in fact, to sway them to another product.

The only thing a merchant can do—and it was mentioned earlier on and it's fairly new, as Catherine mentioned—is they can provide a discount on cash. Once they've signed a contract, they have to accept all the cards that are presented under that brand.

**Mr. Bob Dechert:** Can they advertise that they have a cash price, as opposed to a credit card price?

They can't advertise that, but they could offer it if the customer requests it. You also mentioned that the debit card system was actually a good form of payment mechanism for your retailers. If that's the case, why don't you want more competition in debit card provision? Wouldn't it be a good thing for more consumers to have the ability to use debit?

**The Co-Chair (Hon. Michael Chong):** Madame Brisebois.

**Ms. Diane Brisebois:** It's a great question, and thank you.

In fact, all merchants will tell you they always welcome more competition because it means more choice. This is where I think it's important to understand that there's no competition. If Visa and MasterCard enter the debit market, they will be in the business of trying to attract issuers to their brand. The only way they can do that is by providing a higher incentive.

It is a strange world when we believe that more competition in the debit market means higher fees. The only way, as a bank, that I will decide to issue your Visa card versus Interac, is if you give me 15 cents instead of 10 cents. It's not competition. It's competition between the networks, but it's not competition in real terms. It simply means it will cost more money versus less money, which has a huge impact on merchant business in Canada.

**The Co-Chair (Hon. Michael Chong):** Thank you.

I think Madam Swift has a comment, and then we'll go to Mr. Taylor.

**Ms. Catherine Swift:** Thank you.

I just wanted to get back to the first issue you raised there, about cash discounts and all that.

There's also a practice that's referred to as "surcharging", which is when you use a Visa or whatever, it's another 1.5% on top of your bill. That currently is not permitted, but interestingly, it has been in some other markets. It has been in Australia, for example—we keep bringing up that example—and interestingly enough, it didn't really work because merchants didn't want to do it because they were seen as the bad guys by the consumer. Even if that's proposed to you as some kind of mollifying measure, don't buy into it that easily, because, as I said, experience we've seen has not suggested that that was good.

About the competition issue, I think what's important is that we need collectively to define, for Canada, the terms of debit in Canada. What is the best model for us? Yes, competition is good, but what we've seen if we're looking at what happens in other nations with Visa and MasterCard is this. In the U.S., it was very different. They never had a national debit system like we have. So Visa could come in and offer a national system, whereas that is not applicable to the Canadian model.

That's where we need to do our fact-finding, find out what's best for Canada. We may well say, sure, let her rip, but you can't go to the *ad valorem* pricing. Certain terms have to apply.

• (1705)

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Swift.

Mr. Taylor.

**Mr. Justin Taylor:** I just wanted to comment on the idea of competition. Currently, when consumers choose which method of payment to use, they choose the one that gives them the most benefits. So we currently have an Interac system that's very low cost and no frills, and if Visa and MasterCard introduce a system where now suddenly you get aeroplane points and all kinds of goodies every time you use their debit product, it'll be very difficult for an existing low-cost system to compete when the merchants are the ones footing the bills for these bells and whistles.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Taylor.

Mr. Dechert, one last question.

**Mr. Bob Dechert:** I assume the credit card companies would say that offering these additional reward values causes consumers to do more purchasing. Do you believe that's true?

[Translation]

**The Co-Chair (Hon. Michael Chong):** Ms. Chayer.

**Ms. Danielle Chayer:** In actual fact, I don't believe that anyone will rent a suite at a hotel and pay \$300 more a night in order to get bonus points. Everyone stays within a budget. People won't buy more in order to get points. In addition, consumers don't know that it's the merchant who's paying for the gifts they're given. They think it's the company that's giving them gifts. When we ask our friends whether they know that it's the merchant who pays when they use a particular credit card, no one knows that. That's also part of this transparency.

**The Co-Chair (Hon. Michael Chong):** Thank you, Ms. Chayer.

Ms. Coady.

[English]

**Ms. Siobhan Coady (St. John's South—Mount Pearl, Lib.):** Thank you very much.

First of all, allow me to say thank you to all of you for appearing here today. It takes a lot of time and attention away from other matters, and I certainly appreciate it. I thank you, as well, Ms. O'Reilly, for coming all the way from St. John's, Newfoundland, to visit us today. Thank you very much. I know the time and attention is important, and thank you for all your briefing notes.

I also want to compliment you on bringing so many industry organizations together on this very important issue. It shows the magnitude of the difficulty you are having in this particular issue, and I appreciate that. Because it did raise all kinds of red flags—I know when industry associations try to bring together a diverse group, it certainly is important.

I have a lot of questions and I want to try to take them systematically, but sometimes it won't make sense until the end of it.

First of all, I think in my notes I understand that interchange fees in Canada are higher than in other countries, leaving out Australia, because we know why they're lower in Australia. Am I to understand they're higher than in the United States, and can someone offer an answer as to why that would be the case?

**The Co-Chair (Hon. Michael Chong):** Madame Brisebois, *allez-vous*.

**Ms. Diane Brisebois:** In fact, no one knows the reason. It also obviously supports the argument that there's no correlation between the service provided and the cost charged to the merchant.

**Ms. Siobhan Coady:** It was an interesting chart when I reviewed it, that the United States would be indeed lower than Canada.

Another quick question is on the charge of interchange on HST. Is that correct, that your interchange fee is on your HST as well?

**A witness:** Yes.

**Ms. Siobhan Coady:** Okay. I thought those were two interesting questions.

This is an agreement between businesses. I think it's a challenge to all of us when you're talking about a business-to-business agreement, so I'm going to ask you a couple of questions about the business-to-business agreement itself.

I'm going to use Visa as an example because I know they have a multi-tiered rate on their new interchange rates. I understand their interchange rates had changed approximately a year ago. Did they advise you that they were changing their interchange to a tiered level, and did they give you a rationale for that?

**The Co-Chair (Hon. Michael Chong):** Mr. Taylor.

**Mr. Justin Taylor:** They did advise the association that they would be changing the tiers. What they didn't advise us was how many cardholders they were moving over to those more expensive cards. So there was some warning given that they were considering a change in structure, but as Madame Brisebois said, initially, when we were reviewing these changes, it didn't seem to be as huge as this.

•(1710)

**Ms. Siobhan Coady:** So no red flags went up. You saw the tiers, a separate tier for gas stations and separate tiers for different ones, and there were no real red flags at that point, until you had this other perfect storm happening, when people were starting to move to this new Infinite card, the higher-priced....

I think Ms. O'Reilly has a point.

**Ms. Brenda O'Reilly:** The thing is it started last April and it just gradually got worse. I will gladly provide you with my statements for the past year to show how it has progressed—so much so that most recently, in the last month I have here in front of me, one of the cards I process cost me 3.66%. So it's gone from being 1.64 plus 30¢ or 20¢ or 50¢, depending on the card, to 1.64 plus 2.02.

So it's getting progressively worse and worse, and it's not explained to you how it's done here. It's sort of, “there's your base rate, but here's this other one”—but it's on top of the base rate, which a lot of people probably wouldn't realize. They think the card is pretty cheap, because they don't realize that it's actually on the base rate that you've already negotiated.

I will gladly provide my merchant agreements for the committee, so you can read through them.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam O'Reilly.

Madam Brisebois, and then Madam Swift.

**Ms. Diane Brisebois:** Thank you.

In fact, I want to echo a comment that Catherine made a bit earlier on to Ms. Coady's excellent question.

The problem is that for merchants, not only are they dealing with this interchange fee that Visa and MasterCard have published, but they are also dealing with an assessment fee. They're dealing with a foreign card fee and then some of the processors, the acquirers. We really hope—this is where I'm getting to Catherine's comment—that this committee urges the different players in the supply chain to appear before this committee. There are a lot of processors that are also taking advantage of small businesses by adding even more charges, which end up on a bill where you're showing a 3.35% interchange. It's not an interchange fee; it's a discount merchant rate.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Brisebois.

Madam Swift.

**Ms. Catherine Swift:** Something we haven't even touched on yet is that there is also the introduction of different kinds of transactions—qualified transactions, non-qualified transactions—and they attract different charges. A qualified transaction typically is one where the customer is standing in front of you, swipes the card, the card is physically present and so on. We've actually heard of semi-qualified transactions. Anyway, it's another layer of confusion being laid on here.

To give you an example, a business card, like a corporate card, would be a non-qualified transaction. An Internet transaction.... We mentioned earlier that you can't use cash on the Internet. That's one thing we know we need some kind of plastic for. Of course, an

Internet or even a phone transaction is viewed as non-qualified. It does make sense because there's more likelihood of fraud. The person is not physically standing in front of you with a card.

I just wanted to mention that we haven't even touched on the different transaction types that are also proliferating.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Swift.

We'll go to Mr. Rajotte now. He has some questions for the witnesses.

**Mr. James Rajotte (Edmonton—Leduc, CPC):** Thank you all for coming in today.

I'm trying to understand this model. It reminds me of the voyage that Dan McTeague and I took through gasoline pricing and the Competition Act.

It's three for three here, Dan.

We do have a model, and the researchers have very helpfully identified the relationships among the merchant, the payment processor or the credit card company, the card issuer, and the cardholder.

I think where Ms. Coady was going next was the difference between the merchant discount rate and the interchange rate cost. If we can get someone to just identify.... What proportion of the merchant discount rate typically is the interchange rate? I think that's where she was going.

Madam Brisebois, do you want to answer that?

**Ms. Diane Brisebois:** Thank you.

Well over two-thirds of the discount merchant rate is comprised of the interchange. The larger amount is usually the interchange, or what I would call the Visa or MasterCard rates, which would include interchange, their assessment fee, and any other fee they charge where you cannot negotiate. The rest, which is less than one-third, would be where the processor would negotiate with the merchant.

**Mr. James Rajotte:** That's negotiated directly between the processor and the merchant.

**Ms. Diane Brisebois:** The only negotiation the merchant can make is on the processing fee and not on the fees charged by Visa and MasterCard.

**Mr. James Rajotte:** The interchange rate, as you've mentioned, is different according to what they call “baskets”, but those different baskets are set by Visa and MasterCard and they are not negotiable. Is that correct?

**Ms. Diane Brisebois:** That is correct.

•(1715)

**Mr. James Rajotte:** In terms of what the actual effect is of the interchange rate or the merchant discount rate, we have here a note of Visa's interchange fee schedule, and they have rates on their website from 1.21% to 2%.

On page 14, Madam Brisebois, you have figures here of examples of fees charged to the merchant. You have electronic and standard. For electronic, for premium credit cards, which would be in person, where I swipe my card, that would be 2.12%, whereas for standard, which I understand would be for phoning or online, it would 2.25%. Can you indicate to us where these figures are from?

**Ms. Diane Brisebois:** In fact, they are from one of our colleagues. It's from their numbers, so I'll let Madam Chayer respond, if you don't mind.

[Translation]

**Ms. Danielle Chayer:** This MasterCard rate structure is almost exactly the same as the one currently in effect for Visa. It's really very, very close to it.

An electronic transaction takes place in the client's presence, whereas a standard transaction is done over the telephone or via the Internet and then, depending on the type of card—individual, corporate, premium or worldwide... This Visa structure came out a year ago and the Visa card structure less than six months ago. We were informed of the new rate structure two months in advance. It's they who determine the types of cards and the transaction fees.

Does that answer your question, Mr. Rajotte?

[English]

**Mr. James Rajotte:** Yes. Thank you very much for that.

Madam Brisebois, you mentioned the assessment fee, the foreign card fee. Are there any other fees this committee should be aware of when looking at this issue?

**Ms. Diane Brisebois:** I'm sure there are, Mr. Rajotte. The problem is we are not clear on what all the fees are or what is charged in that bundle of fees. I think the best way to do that is to provide you with statements.

We have been asking the processors to unbundle the statements so that people know what they're paying for. That has been challenging.

**Mr. James Rajotte:** To differentiate between the different fees in the statements.

I don't want to speak for the witnesses to come, but my sense is that what they will say is a higher rate is charged for premium cards, and the reasons for that—there are probably many reasons, but two of the reasons would be that there are higher benefits for consumers, in terms of points or whatever, but there are also benefits with respect to the security. Added security measures are provided, and these are a good thing for merchants; they know the transaction is more secure.

Would Madam Brisebois or anyone else want to respond to that?

**Ms. Diane Brisebois:** I'll respond to the security issue. That is misleading because the security facet of the card exists regardless of the type of card. So it could be a regular card or a premium card. As we all go toward chip cards, all the different credit cards as well as the debit cards will have the chip card as the security feature. So there's no reason why it would be more expensive, because with chip, as we've seen in the U.K., fraud has decreased substantially, bringing costs out of the system. So the security features are embedded in all the cards, not just the premium cards.

**Mr. James Rajotte:** My time is up, but if you want to respond, Mr. Taylor and Ms. Chayer, just briefly, if you have anything to add....

**Mr. Justin Taylor:** Another interesting thing about the chip card is there's going to be a shift in liability. Whereas the credit card processors and companies used to take on liability for a number of different types of fraudulent transactions, with the introduction of the chip they're now moving that liability back onto the merchant. So somehow the costs are increasing and the liabilities they're taking on are decreasing, because chip is more secure and because they're transferring the liability for what they can't bring out of the system back to the merchant. So it's very concerning for us.

[Translation]

**The Co-Chair (Hon. Michael Chong):** Thank you.

Mr. Carrier, are you going to share your time with Mr. Bouchard?

**Mr. Robert Carrier (Alfred-Pellán, BQ):** Will there be another round?

**The Co-Chair (Hon. Michael Chong):** There may be another round for the Bloc Québécois, but I'm not sure.

**Mr. Robert Carrier:** All right. I'll try to go quickly. Thank you, Mr. Co-Chair.

Good afternoon, ladies and gentlemen.

Listening to you, I think we were right to ask that some special meetings of our committee be devoted to the study of this problem. Unlike my colleague opposite, Mr. Bernier, I believe that you are here because you need regulation. Otherwise, we wouldn't be talking about it, and everyone would be happy.

At some point, I think we have to establish some order. I find it unacceptable that you are at the mercy of third parties who determine the rate they charge, in addition to offering promotional aspects, to make more profits for themselves. If we want to retain our small businesses, which are so effective, I think the government has to shoulder its responsibilities.

The Retail Council of Canada people presented a document to us in which they referred us to the Australian model. I see that as a benchmark. However, I wonder about that. An interchange rate topped out at 0.5% seems very low to me relative to the rate we previously had, which was predictable. Earlier Ms. O'Reilly mentioned that a rate of 1.5% might perhaps be acceptable. But I think that, in your recommendations, you asked us to analyze the matter and to determine the rate. If I understand correctly, your objective is to establish a fixed rate based on the actual costs upon analysis. Is that correct?

• (1720)

**Mr. Pierre-Alexandre Blouin:** I'd like to make a brief comment. It's possible that, for some players, a rate of 1.5% is good. In our case, some merchants have rates of 1.39% in total, that is including the established interchange rate and the other fees.

I think you have to do an in-depth analysis. That's what was very well explained by my colleague from the CCGD. I believe the cost analysis will give us a better idea of our situation, which we don't really know right now.

[English]

**The Co-Chair (Hon. Michael Chong):** Madam O'Reilly, would you like to add a comment?

**Ms. Brenda O'Reilly:** I just want to clarify what I said earlier. That may work in my particular business model, because right now I'm paying 2.21%, so 1.5% would be good. But I agree that the costs need to be determined. Of course, it's a business, so I respect that they want to make some money, but it seems right now that what they're doing is dipping in everywhere and gouging all over the place.

[Translation]

**Mr. Robert Carrier:** Thank you.

I'll let my colleague continue.

**The Co-Chair (Hon. Michael Chong):** Mr. Bouchard.

**Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ):** Thank you, Mr. Chairman.

Thanks as well for being here this afternoon.

Unless I'm mistaken, you're presenting a problem that affects a lot of businesses and also concerns consumers.

Like my colleague, I'm open to government regulation. I understand that regulation could be quantitative. Consequently, there would be a transaction cost, an interchange rate and a form of regulation respecting increases, which would provide some transparency.

Am I mistaken or would you prefer a general framework? When we have to develop regulations, an act has to be passed, and that act sets either the "quantity", if I may use that term, or a general framework.

I'd like to hear what you have to say on either of those cases. What should that legislation include?

**Mr. Gaston Lafleur:** Thank you for the question, Mr. Bouchard.

Mr. Chairman, the important thing here is the objective, and that is to ensure that we have a framework, whether it be by regulatory or legislative means or through a specific agency that would monitor the establishment and charging of costs.

We're talking about regulating. So we would like to ensure that some kind of agency establishing the eligible costs that will in fact determine what are called the interchange rates.

In that sense, I refer you to page 15 of our brief, where we put forward a proposal which is in fact being implemented in Australia. It concerns the determination of eligible costs in developing the process. On page 15 of the brief that you received from the Coalition québécoise, we provide a description of section 13. That's the section that in fact talks about the costs of credit card issuers, mainly the costs associated with the transaction processes, the costs associated with all aspects relating to fraud and fraud prevention, costs mainly associated with credit card transaction authorizations and, lastly,

costs incurred in funding the interest-free period between the transaction and payment by the consumer.

We find this element very acceptable, although it's not necessarily the final solution. Nevertheless, the model should help to further your thinking.

• (1725)

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Bouchard.

Thank you, Mr. Lafleur.

Mr. Garneau.

[English]

**Mr. Marc Garneau (Westmount—Ville-Marie, Lib.):** Thank you, Mr. Chair.

Thank you all for coming this afternoon. It's certainly a very important topic these days. I mention this because President Obama, last Friday, in his radio address, spoke about credit cards. He said:

Americans know that they have a responsibility to live within their means and pay what they owe. But they also have a right to not get ripped off by the sudden rate hikes, unfair penalties, and hidden fees that have become all too common in our credit card industry.

You quote somebody from the Mouvement des caisses Desjardins who says that consumers always end up on the hook for all costs associated with the payment service. At the same time, you're here because I think it's affecting your industry.

What I'm trying to do is get an understanding of how much it is affecting you and how much it's actually the consumer. I think the consumer may not be aware that part of it is passed on. At least one of you has talked about it being passed on. Perhaps different retail parts of the industry are affected differently, but I'd like to have your views on that.

**Mr. David Wilkes:** Thank you very much.

Mr. Chair, I'll answer the question this way. I don't think there's an awareness among the consumers our members collectively serve of the different costs associated with the various payment methods, and I certainly don't think they recognize the increase in costs.

I think there is nowhere for all of these costs to go but into the cost of the products. They are definitely affecting the merchant community, but from a grocery perspective, if I can use the example of our industry, there is no doubt, given the margins we have—and I think it would be similar in restaurants and in many small business—that they go directly to the shelf and into the cost of the products.

So there's no awareness, and there's nowhere for them to go but into the cost of the products.

**The Co-Chair (Hon. Michael Chong):** Madam Swift, I think, has a point to add.

**Ms. Catherine Swift:** I'd just like to add that it depends on the industry. Different sectors are going to have different margins and are going to behave differently. Their competitive environment is probably going to be somewhat different, and in tough times a merchant doesn't want to lose any business. So I would say, even though definitely some portion flows through to the consumer—and they have done some studies in the U.S. in which they quantified this, while we haven't done so yet here and perhaps need to—that the merchant often will eat some of it, simply because they want to keep that customer.

It's tough to come up with a nice, easy number; I don't think it's easy to do. But there's no doubt some gets passed on, and I would not be at all surprised if a considerable amount were being absorbed by the merchants because they don't want to lose the business.

**Mr. Marc Garneau:** Thank you.

My second question is, have you approached the government to see whether a regulated solution should be considered?

**Ms. Diane Brisebois:** We're under the impression that this is exactly what we're doing right now, but I think you're asking whether we've spoken specifically to the minister. We have tried to inform the government, and we have certainly had some very productive meetings with various ministers, as well as with different MPs. We have felt, though, that we needed to ensure that all members of Parliament were informed, specifically because we represent so many businesses, and they are represented in all of your constituencies. So this is our next step.

We understand, based on the comments we have received, that looking at this and concluding that regulations are required is a big leap, especially when it's coming from industry associations.

So we have been speaking to as many people as possible, but we're extremely grateful that we're before all of you today.

• (1730)

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Brisebois.

We're going to go to Mr. Thibeault now.

**Mr. Glenn Thibeault:** Thank you.

About a month ago we heard from Conquest. It had had 37 years in business; numerous people were laid off, lost their jobs. I'd like to get their statement correct, but I believe it was citing “unrealistic and unreasonable demands by credit card companies” as having put a business, a Canadian business that was around for 37 years, out of business.

Now we have Air Canada looking at CCA protection. We talked earlier, in my very first round of questioning, about 97%.... We're looking at small and medium-sized businesses across our country. If Conquest had to lay off people, what's happening now to small businesses, in an economic downturn, when their profits are being pulled away? I haven't heard of any layoffs at Visa or MasterCard. Maybe I'll ask them that question.

Can you tell me what's happening now to small and medium-sized businesses that are trying to stay afloat and are losing their profits, when they're even reducing their profit margins to stay afloat? How

are they staying alive? Are they laying off people? Are they stopping expansion? Are they taking less themselves?

**Ms. Diane Brisebois:** It's all of the above. When we surveyed our small to mid-sized merchants as well as our coalition members, the same survey results came back. The only way we stay afloat is, as Catherine mentioned, that if we're to remain competitive we will have to eat some of this unexpected cost. That means we find ways to cut hours, to lay off, and to limit the amount of merchandise we are displaying in our stores. It has all sorts of impacts—all of them negative, unfortunately.

**Mr. Glenn Thibeault:** Did you want to mention anything?

**Ms. Catherine Swift:** Yes. In addition to what has been said, we've done research in downturns over the years, and one of the things the individual business owner does—and all of our members are privately held companies—is cut their own compensation. In other words, they're maybe taking out a second mortgage on their family home or something along those lines, because naturally, their personal finances are very intertwined with their business finances.

**Mr. Glenn Thibeault:** Overspending by consumers was mentioned as one of the reasons the interchange fees and interest rates have to go up. We're not looking for regulation that's going to take away responsibility. What we're looking for is a fair, equitable, and transparent system. We should all know what we're getting when we sign on the dotted line on a contract or when we sign for a credit card. Is that correct?

**Ms. Catherine Swift:** First of all, the problem with people overspending and not being able to pay their credit card bills is supposedly taken into account by the interest rates. We know these interest rates are varied, but we know some of them are very high, at a time when we have really low prime rates. I'm beating the drum to have the individual banks before you, because they're issuing the cards.

I had a member recently say he had two daughters in university and they both wanted a credit card. He agreed but told them they'd have to hold to a \$500 limit and pay it off every month. They behaved very well. But then he turns around and they both have \$5,000 limits. People have to be responsible, as consumers, as holders of credit cards. But it works both ways. Is that responsible behaviour on the part of the bank? I don't think so.

**The Co-Chair (Hon. Michael Chong):** Madam Coady.

**Ms. Siobhan Coady:** I want to go back to my previous line of questioning, because there seems to be a lot of confusion around this. We had a situation where Visa changed its interchange fees—various rates, higher on the premium card, higher on restaurants, lower on some others. They say, though, that they kept their rate at 1.6%, on average. Then there's the merchant discount rate. Did you see that rate change about the same time that you saw the change in your Visa rate? Did it change in addition to the Infinite card?

• (1735)

**Mr. Justin Taylor:** I can only speak about the agreement we had with our payment processor. As soon as Visa announced the change to the structure fees, it was passed on to us immediately. It wasn't just a change from the single interchange fee to this grid of interchange fees. There was also the introduction this year of an assessment fee and a foreign transaction fee. So there were other fees that made up the merchant discount rate.

I don't know if anyone at Visa or MasterCard has ever taken a statistics class, because "average" should take into account the weighted average. You can say that, on average, you're charging one fee, but if you've moved all the cardholders to the higher-cost cards, that's no longer the average rate.

**Ms. Siobhan Coady:** Thank you clarifying that issue.

I want to ask a couple of questions about the consumer. I'm assuming you're absorbing this into your businesses. You're not passing it on to the consumer, so the consumer still has not really been made aware of these increases in cost. They've gotten these new premium cards. I was one of them. I got a premium card sent to me in the mail, and I put it in my pocket and used it, not realizing until now that there were extra costs. I know there's an agreement between you and Visa and MasterCard that you cannot surcharge, but you haven't been passing these costs on in your own prices. Is that correct, overall?

**Ms. Catherine Swift:** I think some of each. Every sector is going to respond to its own competitive conditions, which, naturally, are going to have some differences. If the economy was more robust right now, you'd probably see a few more costs passed on to consumers, just because the market would bear it. Right now, though, when everybody's fighting for business and wanting to keep their own businesses afloat, they're probably absorbing a larger proportion than they would otherwise.

The problem, though, is that consumers don't know what they're getting. There's no disclosure. They just get a card. They don't know it's a different kind of card. Who reads the fine print and all of that? That's where better information comes in.

**Ms. Siobhan Coady:** Thank you. I wanted to get that on the record.

I want to move to debit. Interac has requested to go from a not-for-profit to a for-profit. One of the reasons they give for this move is that Visa and MasterCard are entering the field, and Interac has to be more nimble. They need some governance changes—I think we all recognize that—and they need some cash for R and D.

Now I'm going to go to the switch fee. Interac has a switch fee, a small switch fee, for debit versus the interchange fee. I want to talk a bit about the CPA, because the Canadian payments system is the

regulator of the debit system. As I understand it, the system for settlement for Visa and MasterCard is not under the Canadian Payments Association.

**Ms. Diane Brisebois:** You are correct.

**Ms. Siobhan Coady:** Thank you very much.

**The Co-Chair (Hon. Michael Chong):** Do you have a short question? Go ahead, Madam Coady.

**Ms. Siobhan Coady:** What concerns do you have about that?

**The Co-Chair (Hon. Michael Chong):** Go ahead, Madam Brisebois, and then we're going to go to Monsieur Laforest.

**Ms. Diane Brisebois:** Thank you.

There are several concerns. The first one, which we mentioned earlier, is that we believe the debit system is a Canadian system. You're going into Canadian consumers' banking accounts. It should be regulated under the CPA or a similar agency, as it is currently. And at the end of the day, it should be a flat fee, and it should reflect the cost of the transaction, with a normal return on investment.

[*Translation*]

**The Co-Chair (Hon. Michael Chong):** Thank you, Ms. Brisebois.

Mr. Laforest.

**Mr. Jean-Yves Laforest:** I'm going to share the time allotted to me with Mr. Carrier. Perhaps I'll ask just one question.

Since we started looking at the credit card payment process, we, as members, have heard from the Visa people who submitted documents to us that I can't table because I'll be asking them to do that when they come and testify. Two situations are described in those documents, to which I would ask you to react because I'm very concerned about this. It's a document that talks about myths and facts. It states: "Fact: The credit card companies charge hidden fees and retailers have no choice but to pay." That same document states: "Fact: Retailers and consumers do not pay interchange fees; it is not a "hidden" tax. Retailers negotiate a merchant discount rate..." It continues with a second "Fact: Interchange fees are not known to retailers," and, with respect to the facts, it states once again: "Retailers do not pay the interchange." And yet a paper prepared by the Library of Parliament states very clearly:

[...] the payment processor receives payment (less the interchange rate) for the credit card purchase from the card issuer. The payment processor charges the merchant an amount known as the merchant discount rate [...] The merchant discount rate "may include the cost of the interchange rate; the cost of transaction processing, terminal rental and customer service; and the acquirer's or processor's margin [...]"

I have two documents that contradict each other. I would like to hear what you have to say on that subject. I think this concerns you all.

• (1740)

**Ms. Diane Brisebois:** You have two documents that contradict each other; is that correct? You're asking me which one is true.

**Mr. Jean-Yves Laforest:** Do they pay the interchange?

**Ms. Diane Brisebois:** Yes, retailers pay the interchange. The Visa people say that the retailer doesn't pay the interchange because it is determined by Visa and MasterCard and, depending on the processor you use, it's through it that you are billed. At the end of the day, the interchange is billed directly to the merchant, including the other fees that, I think, the research attachés mentioned.

**Mr. Jean-Yves Laforest:** Thank you.

Go ahead, Mr. Carrier.

**Mr. Robert Carrier:** Good afternoon once again.

I had a question for the Canadian Federation of Independent Business. I don't see in your recommendations the idea of establishing a fixed rate for the interchange, as proposed by the Canadian coalition. In your first recommendation, you state: "Appoint an agency responsible to oversee credit card and debit card fees and activities [...]" I think that's like passing a hot potato to an agency that will have to deal with it properly.

Would you be in favour of a solution under which the interchange rate, following a study, could be set by an act that at least would determine a reference point for all credit card companies?

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Carrier. [English]

Go ahead, Madam Swift, very briefly.

**Ms. Catherine Swift:** As we discussed earlier, there's no one perfect interchange rate. I think perhaps oversight of a process and regular monitoring of this industry is really what we're looking for. As we mentioned earlier, in Australia it happens to be the central bank. If that were the case in Canada, it would be the Bank of Canada. They haven't stepped up to the plate in seeming to want to do this, but there are other agencies that exist. The FCAC is a possible example. One could have oversight by a parliamentary committee or by the Department of Finance.

**The Co-Chair (Hon. Michael Chong):** Thank you very much, Madam Swift.

Mr. Rota.

**Mr. Anthony Rota:** Thank you, Mr. Chair.

I'd like to go back to the debit card system again. We've been dealing a lot with the credit cards, but the debit cards really started this all off, with the possible changes coming to Interac.

One of the areas discussed in your deck is staying away from the *ad valorem* system. Some of the banks state they are taking some risk when they transfer money, so the *ad valorem* system would basically protect them in the transfer. I can understand that in the credit card system because there is a little more risk, but am I missing something in the debit card system? Can you maybe explain to me where there would be risk in dealing with a debit card as opposed to a credit card?

**Ms. Diane Brisebois:** There's absolutely no risk. It's a real-time transfer of someone's money out of his or her bank account to pay for the purchase. All the people involved in the transaction are paid immediately. If the money is not available in the customer's bank account, the transaction is declined. The moment it's approved, that money is out of your bank account travelling to whomever is to be

paid for the transaction. So there's actually no risk. You cannot compare it to a credit card transaction at all.

● (1745)

**Mr. Anthony Rota:** Very good. Thank you.

My other concern is that if Visa and MasterCard are permitted to come in, they'll be working with an American system as opposed to a Canadian one. There are some barriers to information going back and forth. As far as the small merchant goes, that information is not something that worries you. But how would foreign companies coming in and having access to that information affect merchants as far as customer bases?

**Ms. Catherine Swift:** Are you talking about privacy concerns or...?

**Mr. Anthony Rota:** Exactly.

**Ms. Catherine Swift:** We have a lot of foreign companies operating here now, and as long as they're obeying the laws of the land, I don't see that being a really worrisome issue.

**Mr. Anthony Rota:** It's not an issue. Very good.

I'll be sharing my time with Mr. Garneau. Thank you.

[Translation]

**Mr. Marc Garneau:** Thank you. My question is for Ms. Brisebois and Ms. Swift. You mentioned that a solution for credit card costs, among other things, could be to establish eligible costs directly related to the actual processing cost, plus reasonable margins for card issuers. Currently, if I use the figure you're advancing, it costs the consumer roughly 1.86%.

What would be a reasonable margin these days? I'm asking for your opinion and that of Ms. Swift as well.

**Ms. Diane Brisebois:** I'd really like to answer your question by giving you a specific figure, and that's why we are suggesting the Australian model. In fact, authorities have studied the experiment over the past five years. There has been some transparency because the credit card companies are required to inform the Australian bank of operating costs and transaction costs, and that's how authorities have come up with a figure of 0.50%, or 50 basis points, that would be considered as reasonable. However, we don't have the information in Canada concerning transaction costs and profit margins. That's why we're suggesting an extensive study be conducted.

[English]

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Brisebois.

Mr. Thibeault.

**Mr. Glenn Thibeault:** Thank you.

There are a lot of advertising campaigns on television, radio, in newspapers, you name it. Credit card companies are out there pushing their premium cards. Most of the people I know cringe every time they see a television ad, because I'm going to give them a lecture on who's actually paying for the points the person uses when they're flying—but that's a good thing.



When we're talking about pushing usage, people never really used their credit cards before at grocery stores. How is that going to have an impact on grocery stores or organizations like that?

**Mr. David Wilkes:** Thank you for the question.

Some of the advertising I referred to does target our members. They target grocery stores, gasoline, and pharmacies with a variety of incentives. I think we've seen the increase in card usage, upwards of 10%. Within that, we've seen almost half of that being the premium cards. So there is a definite impact. The impact is the one we've been talking about during these committee hearings. There are increased costs and an inability to absorb those costs. If you can't absorb them in a thin-margin business, they get passed along. Even if that person is getting more points, a \$2 discount—there's that one ad we're all familiar with—everybody is paying for that. There is no way of escaping the benefits in the cost of the products.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Wilkes.

We'll go to Monsieur Blouin.

[*Translation*]

**Mr. Pierre-Alexandre Blouin:** The impact on food retailers can be summed up very simply. The increase in credit transaction costs has been 37.2% in two years.

•(1750)

**The Co-Chair (Hon. Michael Chong):** Mr. Lafleur.

**Mr. Gaston Lafleur:** Thank you, Mr. Chairman.

I'd like to supplement my colleague's answer to Mr. Garneau's question. It's a very important question. The factors that should be used to establish a reasonable profit should be determined. Your question is very relevant and is related to the need to establish a regulatory framework that will establish standards. It's not up to us to answer that.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Lafleur.

Mr. Thibeault.

[*English*]

**Mr. Glenn Thibeault:** I'll jump back to what I was talking about in relation to the premium cards. I guess I would like your best guess on this. Did the problem start—and I'm sure there are more than a few—when we started to see an influx of premium cards in the market? There are unsolicited campaigns out there to get these premium cards to people all over, and they can't even return them. If you have a Visa Classic, for example, and they give you the Infinite, but you want to go back to your Classic, you don't get a credit card. So people take them. Is that when this problem started? Did we start to see the increase in interchange fees—use Giant Tiger as an example—when they started bringing out these premium cards?

**Ms. Catherine Swift:** That was definitely one main factor. I also believe, though, that both Visa and MasterCard became publicly traded companies back a couple of years ago. I believe there's just more of an appetite for more revenue, which is also driving this. There were increases in a lot of these interchange fees even before the premium cards, and then the premium cards added to that.

There are a couple of quick statistics I want to cite. There was a U. S. study done in 2006 that showed that only 13% of interchange fees

went towards the cost of processing. About half went towards all these perks. It just speaks to the fact that somebody has to be paying for this. That's the real issue.

One thing we'd like to direct to government is that the government uses a lot of premium cards too. How much is it costing government? I mentioned earlier that academic institutions are stopping accepting them. Governments also use them a lot.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Swift.

We'll go to Mr. Lake.

**Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC):** Thank you, Mr. Chair.

I want to start by saying that I definitely have some sympathy for what you're talking about here today. It seems that there's a real concern about a lack of competition and a lack of transparency. Some of those concerns seem quite valid.

I'm also concerned, as Mr. Bernier expressed earlier, about regulation. We need to be very careful when we start talking about regulation. There are often, with government regulations, unforeseen consequences. It can be a slippery slope once you start moving.

I noted the difference between the recommendations. The biggest difference seems to be that the coalition group over there is focusing a little bit on price regulation, whereas CFIB, I noted, does not have a recommendation for price regulation. There's a recommendation for other forms of regulation.

Mr. Thibeault, in his first round of questioning, used the phrase “one step forward” when he talked about this regulation, implying, of course, that there are other steps to come. Once we go down here, who knows? We might go after that.

I would be interested, Madam Brisebois, if you could talk about your organization's or perhaps the whole coalition's stance, for example, on regulating gas prices, regulating grocery prices, labour prices—a national minimum wage and things like that. I'd be particularly interested in, for example, regulating the rate on retail credit cards. They have the highest rates of interest paid. I'm curious to hear your thoughts on whether that should be the next step in terms of price regulation.

**Ms. Diane Brisebois:** Thank you for this question. I think we need to clarify something.

This coalition is not asking for price fixing or for price caps. We are in fact asking for regulations for oversight for transparency and accountability. Since merchants cannot compete in a market where Visa and MasterCard own 95% of the credit card market, there should be a system in place to ensure that whatever they're charged has a correlation with the service that's provided. I think that's different.

In relation to other markets, I would suggest that that is in fact the reason you're not getting calls to regulate. If you're looking at the retail market, it is the best example. If I want to buy organic eggs, I have a thousand places I can go to buy organic eggs and I can make the decision based on the value I receive and how much I should be paying. If I'm not prepared to pay that price, I have a choice. I can go somewhere else.

That is in fact the big difference, Mr. Lake. In this case you have two companies that own 94% of the market and who indeed set the prices. In fact, what we're saying is we may need, strangely enough, regulation and oversight to ensure that they stop setting those prices or those fees in a way that makes this business non-competitive.

• (1755)

**Mr. Mike Lake:** Thank you.

As I said before, I have sympathy for the situation right now. I would think there are several ways we can solve this problem. Of course, the government can get involved in terms of regulating prices, as has been suggested, or it can get involved in terms of changing the rules in some other areas to do with competition, transparency.

Alternatively, of course, the parties involved can solve it themselves, which sounds like that's been a hard road so far. I'm sure Visa and MasterCard have some people watching on TV or maybe even in the room here as we have this discussion. I would caution them probably not to come to the committee and say there's no problem whatsoever. I don't know that there would be much appetite on the part of anyone at the table to hear that there's no problem. I think we recognize there's a problem. I want to hear from them what ideas they have for solving the problem.

If I could, I'll just turn to the CFIB and give you a chance to respond. You haven't talked about price regulation. Maybe you could explain why you haven't talked about that, and maybe you can elaborate a little bit more on the ways you have thought about to solve the problem. Perhaps there's been thought given to working with the other parties outside of government to see if there's some resolution to this.

**Ms. Catherine Swift:** We also haven't ruled out regulation, just for the record. The main reason I think we're all here is to have a proper study. We have a bunch of studies in the U.S. I'm not saying they're perfect, but at least we have a better understanding of what's happening in other marketplaces than the one we have in Canada. I think a proper research project has to be undertaken, however constructed, to really help us understand what is going on in this market, how prices are being determined, and what in Canada—as people interested in public policy—would be best for our country, for our merchants, for our consumers, for our economy.

We don't think that's been done yet. We've made some recommendations, obviously, as to what we think should be components—a code of conduct, something that maybe they have to report on before a parliamentary committee and say, “Okay, here are the components of a code of conduct and we've been compliant with them”, and so on.

As I say, we do have recommendations. We do think some oversight by some agency that is tasked to do that is needed, and we

can debate which one it should be. That's why we felt we had to get to that step first before determining if we actually need to take the regulatory step or if we can satisfy this by other means.

**The Co-Chair (Hon. Michael Chong):** Thank you, Madam Swift.

[Translation]

Mr. Vincent, you'll be the last committee member to ask questions.

**Mr. Robert Vincent:** Thank you, Mr. Chairman.

I'll go back to Mr. Lake's assumption that regulation has unexpected consequences, but the lack of regulation also has unexpected consequences. You said that interchange fees had climbed quite quickly from one month to the next. Under regulations, a minimum rate could be established. That's why you want regulations introduced.

Going back to the debit card issue, earlier it was said that there weren't any interchange fees with Interac. If MasterCard and Visa entered the picture, the consequences would be greater for everyone, including consumers. The fee increase will be passed on to someone; I imagine it will be consumers.

What legislation should we pass respecting debit cards?

**Mr. Gaston Lafleur:** Thank you for your question, Mr. Vincent.

It must be acknowledged that, currently, Canada definitely has the best debit card system we can hope for. The system works very well and is based on costs.

The entry of MasterCard and Visa into that market will create a situation that cannot be justified in any way. We know what happened in the United States, where a very different system is used, a mixture of direct costs and a percentage of transactions. In our minds, it's important to retain what works well and to ensure that all businesses that want to enter this market do so under similar conditions. We must ensure we do not go to an *ad valorem* system, which is not warranted, as is the case in the United States. We should at least allow Visa and MasterCard to enter the market on a direct cost basis.

If that were the case, some form of regulation would clearly be necessary. That's essential in our minds. If we move toward the current American method, I assure you that costs will rise in an unwarranted manner. Despite the fact that we're aware Interac will have to compete with those businesses in one way or another, the fact remains that we'll have to regulate the framework within which that competition occurs. Otherwise, honestly, our system will take a hit.

• (1800)

**Mr. Robert Vincent:** I liked Ms. Brisebois' answer. She said that, if Interac became a for-profit entity, Visa and MasterCard would be interested in becoming acquirers. The system in place in Canada works well. If Interac seeks the creation of a for-profit entity, we can reasonably think that the other two corporations will get their hands on Interac, saying that all the distribution points are in place and that they need only buy the business and continue in the same manner.

Is that a plausible scenario?

**Mr. Gaston Lafleur:** Thank you for your question. Honestly, I don't have a crystal ball, and I wouldn't dare give you an incorrect answer. That's one possibility. In our minds, it's important to ensure that what works well continues to work well. In our view, the entry of MasterCard and Visa into the Canadian debit market heralds some serious problems, especially if the use of direct costs is not regulated. We should use the direct cost method and not the *ad valorem*, the percentage route.

**The Co-Chair (Hon. Michael Chong):** Thank you, Mr. Lafleur and Mr. Bouchard.

Thanks to all committee members for their questions and comments, and thanks to our witnesses for their comments.

[*English*]

This meeting is adjourned.

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