

Briefing: Standing Committee on Finance
Study of Digital Mobile Payments
Canadian Independent Petroleum Marketers Association
February 25, 2014

About CIPMA

CIPMA is a national not-for-profit trade association representing the unique interests of independent (i.e. non-refiner) marketers of petroleum products. CIPMA members are key distributors and marketers of petroleum and renewable fuels to the commercial, agricultural, industrial, wholesale and retail markets in every part of Canada. Approximately 80% of CIPMA members have retail operations. They are small and medium-sized fuel companies who are the backbone of Canada's fuel distribution and marketing industry. Having an independent petroleum marketing sector benefits Canadians – they bring competitiveness to the retail fuel sector which would otherwise be dominated by a handful of large refiner marketers.

Collectively, our members directly employ close to 5,000 Canadians, and indirectly employ another 15,000 through dealers and agents. CIPMA members account for 17.5 billion litres of sales annually: 27% of all gasoline and 23% of all fuel sold in Canada.

Current Payments Sector Landscape

Credit card fees in Canada are among the highest in the world. Canadian retailers pay approximately \$5 billion per year in hidden credit card fees to banks to cover the costs of accepting credit cards as a form of payment. Unfortunately, increasing merchant service fees are eroding retail margins for Canadian business owners and pose a threat to the sustainability of independent businesses in Canada.

Our retailers know that in order to remain appealing to consumers, they must embrace new technology and keep up with the rapidly changing payments sector. We understand that speed of payment is of key importance to customers. However, as mobile payments continue to gain prominence in the payments sector, merchants fear this will pave the way for new processing costs and equipment fees in addition to the already exorbitantly high credit card fees.

CIPMA members report that close to 50% of customers use credit cards for purchases. It is estimated that members are paying up to 1/3 of their operating margin to process credit card payments alone. All other operating costs including staff costs, taxes, site maintenance, and utilities must be covered with the remaining margins, resulting in very small profits for retailers. Any new fees related to mobile payment processing or equipment requirements would further erode retailer profit margins, and could result in business closures which means less competition and higher prices for consumers. Specifically, independent petroleum marketers suffer even more severely when fuel prices increase. Operating margins for independent marketers historically stay within a very narrow range regardless of the price of fuel. Our members do not benefit from higher gas prices – but they do pay more in credit card processing fees.

Small to medium-sized businesses are the lifeline of Canada's economy, yet they are significantly and disproportionately burdened in this unregulated and anti-competitive marketplace. Petroleum marketers incur onerous and unreasonable processing costs, while struggling to maintain fair and competitive consumer pricing.

Voluntary Code of Conduct

The Code of Conduct for the Debit and Credit Card Industry in Canada was introduced in 2010 to promote transparency and choice for merchants with regard to payment schemes. In September 2012, the federal government announced its plans to extend the voluntary code to include mobile payments. In theory, CIPMA supports various elements of the addendum to the Voluntary Code of Conduct, inclusive of mobile payments. We agree that merchants should have the sole authority to determine what forms of payment they wish to accept, that competing domestic debit apps can be stored on the same device provided they are distinct apps, and that consumers should have the ultimate choice in default settings and applications they wish to use. We also still support the implementation of a clause in the Code noting that express, written consent be required for each mobile product offering, including express consent for each individual payment option within a mobile wallet.

While we commend the government for recognizing new payment sector technologies, we feel that a Voluntary Code of Conduct is simply not enough. Many of our retailers have expressed that the current Code is not working for them; they are not being protected from the burden of high credit card fees.

A code that is currently not working for retailers in regards to credit card fees is even less likely to work for retailers with the introduction of mobile payments. Mobile payments involve an intricate system of stakeholders. What used to be a payments system that primarily involved credit and debit networks, issuing banks and acquirers, now also comprises mobile telecom companies (Bell, Rogers, Telus, Wind, etc) and technology companies (Google, Apple, PayPal, etc.). With such an extensive set of stakeholders, compliance within a voluntary code is highly unlikely.

Therefore, as the payment sector continues to evolve with respect to mobile payments, CIPMA recommends the following:

Government Review

CIPMA recommends that the federal government review lessons learned and best practices with respect to credit card acceptance fees for both credit card payments, and mobile payments in other jurisdictions. Reviewing regulation and its effect on small business will provide the government with the necessary understanding and platform for consideration of potential regulation or action within Canada.

As an example, in 2002, the Reserve Bank of Australia introduced payment sector reforms that capped merchant processing fees to 0.5% of a transaction's value, which was down to about half the original average fee of 0.95%. This produced net welfare gains of \$100 to \$150 million per year for Australian retailers.

Below is a chart outlining Canada's current credit card fees on average, in comparison with jurisdictions that have implemented regulation and capped fees.

Country	Credit Card Fees (% of a transaction's value)
Canada	1.5 to 4
Spain	0.59
Australia	0.5

We urge the government to explore the impact of such reforms, and analyze their potential application to our payments system.

Conclusion

A Voluntary Code of Conduct for the payments sector is currently not working for Canadian retailers as they are already troubled by high credit card processing fees. With mobile payments quickly gaining prominence in the payments sector, processing fees could increase even further and compliance with a voluntary code will be worse than ever before.

As retailers' gross profit margins are rapidly fading as a result of payment processing fees, it is imperative that we prevent payment networks and service providers from deciding the fate of small to medium-sized businesses in Canada.

Contact

Tricia Anderson
President and CEO
CIPMA
Office: 905-823-6996
Cell: 416-795-9593
www.cipma.org