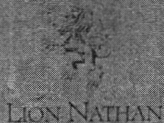
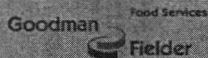




**RESTAURANT
& CATERING**
AUSTRALIA

Restaurant & Catering Australia
is a federation of State
Associations, all working
together on national issues, on
behalf of their members.

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13 August 2001

Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Dr Veale

RE: Credit Card Fees and Charges

Following our discussion on this matter, I outline the Association policy on key issues below. I have taken the liberty of including a brief background on the organisation I represent to place the comments in context.

Restaurant & Catering Australia (R&CA) is the peak national body representing the interests of restaurateurs and caterers across Australia. Through State Associations the R&CA represents some 5,000 members, 91.3% of whom accept credit cards¹. As such the Association is keen to forward the interests of its constituents in relation to credit card fees and charges.

Merchant Service Fees

The Association believes that merchant service fees are higher than they need to be. These fees are set at a level that affects profitability of restaurant and catering businesses. The effect of the costs of credit card transactions was compounded when the GST increased this fee by around 10% with no return to the restaurateur. The average pre-tax profit of a restaurant / café / caterer is 4.8²%. Approximately 60% of transactions in restaurants are charged to credit cards therefore credit card charges are equivalent to 20% of the business net profit.

It is well understood that the interchange fee is a significant determinant in the merchant service fee (MSF). It is the belief of our constituency that this fee should be reduced to a reasonable level on the proviso that the flow on effect to the MSF is achieved and that this reduction does not simply redress the balance between the issuing and acquiring side of the banks' business.

In moving to designate credit and debit card schemes it is important that the Reserve Bank gains some assurance that the outcome of a fixed interchange fee would be reduced merchant service fees and not realigned bank profits.

¹ Restaurant and Catering Operations Report, 2nd Edition, Restaurant & Catering Australia, April 2001

² Café and Restaurant Industry, Australian Bureau of Statistics, October 2000

Loyalty Programs

It is the prevailing thought in this industry that the cost of marketing programs (that directly drive business to card companies) should be covered by the card-holder and not the merchant. Whilst a flat fee (to cover the administration of the scheme) is charged to the consumer, transaction percentage based fees (MSF) cover the points that are awarded under loyalty programs. As detailed in the RBA / ACCC report of October 2000, the cost of loyalty points is between \$0.30 and \$0.62 for a \$100 transaction. These costs are significant when taken in the context of the profitability percentages quoted above.

In short, the banks and charge card operators should not be able to use loyalty programs to justify higher than necessary merchant service fees. The MSF should cover only the transaction processing costs incurred by the bank / operator.

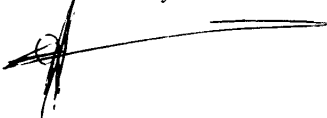
No-Surcharge Rules

The no surcharge rule, that is contained in merchant service fee agreements should be determined to be anti-competitive and be disallowed. Restaurateurs and caterers experienced a reduction in margin, on average of 2.7%, upon the onset of the GST. This was because the market is so competitive that our constituents believed the 9.7% odd increase in selling prices would negatively impact on sales.

This experience demonstrates the rigidity in the market and the inability for restaurant operators to increase their menu prices to cover costs incurred. Whilst in general it is suspected that businesses pass on the maximum transaction percentage fee, to which they will be subject (ie. around 3.5%), restaurateurs are unable to do this due to market constraints. Each sale that is incurred on a Diners Club or American Express Card thereby eats into the margin of a restaurateur / caterer. Restaurateurs and Caterers therefore believe it would be reasonable to be able to charge a premium for transactions processed on these cards.

Dr Veale, I reiterate that restaurateurs / caterers are in a very low margin, high consumer turnover business. This business relies on credit card transactions for the majority of its settlement activity. These charges to credit card processing are vital to the continued viability of our industry.

Yours sincerely

A handwritten signature in black ink, appearing to be 'John Hart', with a long horizontal line extending to the right.

John Hart
Chief Executive Officer
Restaurant & Catering Australia