

26 August 2014

Mr. David Murray
Chairperson
Financial System Inquiry
GPO Box 89
Sydney NSW 2001

By Email: fsi@fsi.gov.au

Dear Sir

Financial System Inquiry Interim Report 2014

Master Grocers Australia (MGA) welcomes the opportunity to make a brief comment on Payments Systems Sector in the Financial System Inquiry Interim Report 2014.

About Master Grocers Australia

MGA is a National Employer Industry Association representing independent grocery and liquor stores in all States and Territories of Australia. Independent supermarkets and liquor stores (independent supermarkets) comprise a significant subsector of the retail industry in Australia. They range in size from small, to medium and large businesses. Although many of the medium sized businesses would not be categorised as such from a legal perspective, they are in fact relatively “small” in comparison to the large supermarkets in the retail industry and therefore they struggle for survival against the power of the major retail chains. Nevertheless, despite competing in a dominated market, independent supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade.

The stores operate under banners such as Supa IGA, IGA, IGA Xpress, Friendly Grocer, Foodland, FoodWorks, SPAR, Supabarn, Cellarbrations, Bottle-O, IGA Liquor, Local Liquor, Duncans and Bottlemart. Australia’s 4000-plus independent grocery and liquor retailers employ 115,000 people and generate annual sales of \$13 billion. Through their membership of MGA they are regularly provided with information on any proposed legislative or regulatory changes and how they may be affected by new laws and regulations.

MGA is concerned that there may be some inequities in the current financial system in Australia and therefore would like to draw the attention of the Inquiry to the impacts on small businesses of what are seen as unfair practices.

Regulation of debit and credit card schemes

It appears that Eftpos, MasterCard and Visa card use a four party payment scheme whereas American Express use a three party payment scheme. American Express is able to charge a higher merchant fee which is based on providing consumer incentives such as customer points for every dollar spent. This contracts with MasterCard and Visa which are regulated to a maximum usage charge.

Consumers are obviously attracted to the advantage of receiving additional points if they use an American Express card and therefore they want to use this card to purchase groceries and liquor. .

However, independent supermarkets and liquor stores are reluctant to accept American Express cards owing to the higher merchant fees associated with this card. The end result is that many consumers therefore shop at the larger supermarkets such as Woolworths and Coles because these larger stores are able to carry the burden of the higher charges. This is obviously a distinct disadvantage to a smaller retailers and it is our submission that this inequity should be addressed to establish greater equality.

A further issue that MGA believes should be addressed in the Inquiry is the issue of Eftpos interchange fees. That have now become a merchant's obligation. MGA members are required to pay between 15 and 18 cents for each Eftpos transaction. Although this charge can be set with a "cash out" option MGA members remain out of pocket. Once again this becomes an uncompetitive situation for our members. The larger supermarkets, such as Coles and Woolworths are not required to pay an interchange fee because they are similar to a bank in that they hold the status of an "acquirer", which allows them to accumulate cash.

Conclusion

MGA is concerned that these inequities are affecting the businesses of smaller retailers who struggle to gain market share in a system that is already heavily weighted in favor of the larger stores. We appreciate the opportunity to make this brief but very important comment to the Inquiry and we thank you for this opportunity.

Should you require any further clarification on these issues I would be pleased to discuss them further.

Yours sincerely



Jos de Bruin

CEO

Master Groccers Australia