



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

21 November 2008

The General Manager
Adjudication Branch
Australian Competition and Consumer Commission
By email: adjudication@acc.gov.au

Dear General Manager

Woolworths Limited and Australian Independent Retailers Pty Ltd – exclusive dealing notifications N93625 & N93626

Abacus – Australian Mutuals appreciates the opportunity to comment on these exclusive dealing notifications. The notifications relate to a proposal to offer customers the ability to purchase fuel at certain CALTEX Woolworths and CALTEX Safeway co-branded fuel outlets using a pay at the pump facility on condition that the customer pays with their Woolworths Everyday Money Credit Card (Woolworths Card).

Abacus is the industry association for 123 credit unions and 9 mutual building societies (mutual Authorised Deposit-taking Institutions - ADIs) and 29 friendly societies. Abacus members have 6 million customers and total assets of \$70 billion.

Abacus supports and promotes competition and choice in financial services, including payment services. For more detail on Abacus and its members, see www.abacus.org.au.

Summary

Woolworths' size and marketing power provide it with an enormous advantage in the credit card market. Woolworths' formidable position in household consumption markets includes the petrol shopper docket scheme that drives Woolworths shoppers to CALTEX outlets.

Woolworths' proposal to offer exclusive access to the pay at pump service at CALTEX outlets to holders of the Woolworths Card could lessen competition in the credit card market, and could substantially lessen competition in the credit card market for consumers who value highly the features of the pay at pump service.

Mutual ADIs & credit cards

Mutual ADIs provide banking services, including access to the payments system, to 4.6 million Australians. Mutual ADIs issue a range of payment card products, including proprietary debit cards, scheme debit cards and scheme credit cards. Card brands issued by mutual ADIs include Redicard, Cue Card and Cashcard as well as Visa and MasterCard. The wide range of credit card products issued by mutual ADIs includes low-rate "no frills" cards and "rewards" cards with higher rates.

According to Cannex, eight of the 10 lowest standard variable rate credit cards in the Australian market are issued by credit unions and building societies, with interest rates ranging from 9.24 per cent to 11.3 per cent.

The Woolworths Card is a rewards card with a standard interest rate of 18.99 per cent from 1 February 2009.

Public detriment and effect on competition

Abacus believes the public detriments of this exclusive dealing proposal outweigh any public benefits.

Woolworths is promoting the "epump" feature as a way to "checkout at the pump and get back on the road faster" and "you'll no longer have to queue in-store." According to the latest Payments Statistics from the Australian Payments Clearing Association, there are 20.3 million "credit & multifunction cards" on issue. All of these cardholders, with the exception of Woolworths Card cardholders, would be denied access to the CALTEX pay at pump facility.

Woolworths' notification of exclusive dealing states at paragraph 2.(b)(b): "Woolworths will not offer goods and services (i.e. pay at pump facilities at certain CALTEX Woolworths and CALTEX Safeway co-branded outlets) to persons who have not acquired services from HSBC, being the acquisition and use of the Woolworths Everyday Money Credit Card."

Consumers who value the convenience and other benefits of being able to pay at the pump for fuel at certain CALTEX outlets would have no choice but to obtain a Woolworths Card. Such consumers would include parents of young children who do not wish to leave children unattended in the car while queuing at the counter to pay for fuel.

One of the public benefit claims in Woolworths' notification, at paragraph 4.(a)(iii), is "a quicker and more efficient means of payment to purchase fuel will minimise the amount of time customers require at the service station and pump."

However, this public benefit would only be maximised if the Woolworths Card obtained a large share of the credit card market at the expense of other card issuers. The Woolworths Card would not be competing on its merits with other payment products in terms of interest rates and fees but would have the advantage of exclusive acceptance for pay at the pump use at certain CALTEX fuel outlets. As noted above, the Woolworths Card standard interest rate is 18.99 per cent, which is a very high rate for a consumer who would prefer a no frills low rate credit card.

Honour All Cards

The proposal undermines the pro-competitive 'honour all cards' (HAC) rule observed by card schemes and, even more significantly, undermines the 'honour all issuers' aspect of the HAC rule. Under the proposal, only one MasterCard issuer, i.e. HSBC, would be accepted for this transaction with all other MasterCard issuers excluded.

The Reserve Bank found in its 2005 paper *Reform of the EFTPOS and Visa Debit Systems in Australia* that:

"There is a general acceptance that the honour all issuers aspect of the rule is in the public interest. By insisting that merchants must accept Visa-branded cards regardless of the issuer, Visa is maximising the network value to cardholders and issuers. If merchants were allowed to selectively refuse cards issued by particular institutions, the value of the Visa

brand and card system could be reduced. Selective refusal could generate a need for bilateral negotiation between issuers and acquirers and, potentially, merchants. This would raise the costs of participating in the system and generally impair efficiency. Cardholders could also be directly disadvantaged by not knowing whether cards issued by their financial institution would be accepted at any given merchant."

Conclusion

According to the ACCC's July 2008 report on the grocery market, Woolworths has more than 2000 stores across Australia including around 780 supermarkets operating under the Woolworths and Safeway brands. Other Woolworths outlets include a discount department store chain (Big W), electronic stores (Dick Smith and Tandy) and liquor brands (Woolworths Liquor, BWS and Dan Murphy's). It also operates petrol station/convenience stores in conjunction with CALTEX and uses a petrol shopper docket scheme to drive grocery shoppers to CALTEX outlets.

Woolworths accounts for 30 per cent of retail grocery sales. Woolworths' total food, liquor and petrol sales in Australia for 2006–07 were \$32.6 billion.

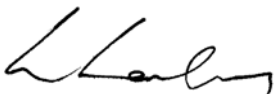
Woolworths' size and marketing power means that it enters the credit card market with an enormous advantage on other credit card providers.

Woolworths' proposal to offer exclusive access to the pay at pump service to holders of the Woolworths Card could:

- lessen competition in the credit card market; and
- substantially lessen competition in the credit card market for consumers who value highly the features of the pay at pump service.

Please don't hesitate to contact me on 02 6232 6666 to discuss any aspect of this submission.

Yours sincerely,



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