



## **Statement by the Food Marketing Institute on H.R. 2382, the Credit Card Interchange Fees Act of 2009**

**October 8, 2009**

Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores and 14,000 pharmacies. Their combined annual sales volume of \$680 billion represents three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from more than 50 countries. FMI's associate members include the supplier partners of its retail and wholesale members.

On behalf of the nation's grocers – both large and small – the Food Marketing Institute strongly supports H.R. 2382, the Credit Card Interchange Fees Act of 2009, and we commend Congressmen Peter Welch (D-VT) and Bill Shuster (R-PA) for introducing this important legislation to protect small businesses and consumers. We would also like to thank Chairman Frank and the Financial Services Committee for holding a hearing on this bill, which would level the playing field for small merchants and consumers with credit card giants Visa and MasterCard, and would increase transparency in the interchange fee system.

When grocers decide to accept Visa and MasterCard in their stores, they must sign a merchant contract agreement. This agreement is unlike any other contract in the business world. First, it is entirely non-negotiable. Second, Visa and MasterCard can change the contract at any point, and they have no responsibility for directly informing their customers (merchants). Third, merchants are forced to accept any changes without signing a new contract.

Included in the Visa and MasterCard contracts are rules that tell merchants how they must run their business. One such rule Visa and MasterCard impose is that merchants cannot charge a minimum amount for a credit card transaction in their stores or they face the threat of excessive fines for breaking the rules. This rule is particularly harmful for small businesses where a customer might drop in to the store to purchase one item such as a bottle of water or a bag of chips. If the customer wants to use a credit card for the purchase, most times the store-owner would be better off just giving them the items because the interchange fees collected by the banks and card companies would far exceed profits. The argument for ticket lift, that an average purchase will be greater in value when using a credit card instead of cash, does not apply to many grocery store customers. A customer shopping for a gallon of milk will only purchase one gallon of milk; a customer will not purchase two gallons just because they are using a credit card.

The Visa and MasterCard contract rules are also harmful to our customers, although, most do not know it. The Visa and MasterCard rules keep interchange fees hidden from consumers and leave merchants with no choice but to include interchange fee costs in the price of all goods and services. As a result, everyone pays for interchange

fees regardless of whether they pay with cash, check, credit or debit; affecting our unbanked customers the most under the current interchange fee system.

Why then do merchants put up with the Visa and MasterCard rules if they are harmful to both businesses and consumers? Visa and MasterCard will threaten them with excessive fines if merchants refuse to play by their rules. The Visa fine schedule is available on page 17 of their current operating rules; MasterCard's is on page 3-3. The beginning rate for a Visa and MasterCard fine is \$5,000 a day, enough to put some small grocery stores out of business. Even though the Visa and MasterCard rules are not law and are non-negotiable, our members are left without much of a choice as to whether or not to follow them. In a competitive market, Visa and MasterCard should be competing for business from merchants, but they get away with this take-it-or-leave-it behavior because of their extreme consumer credit and debit card market power of roughly 85%.

Interchange fees have tripled over the past decade and are outpacing both healthcare and energy costs for many of our members. The banks and card companies are collecting roughly 2% in interchange swipe fees from our members on each credit card transaction in their stores. The grocery industry operates on a profit margin of 1.43%. You do the math – it hurts! It hurts not only retailers, but our customers as well. Our members are doing everything they can to keep prices as low as possible for their customers, especially during these tough economic times, but they simply cannot absorb the full cost increase of excessive interchange swipe fees.

Credit and debit cards provide a great convenience for grocers and our customers; we just want a fair and transparent system in which we can negotiate the terms of our contracts with Visa and MasterCard. We strongly believe the Credit Card Interchange Fees Act of 2009, H.R. 2382, will provide for increased fairness and transparency, and will have a positive impact on struggling Main Street merchants and their customers.