

Afterthoughts

>> Olympic-Sized Discontent

BY MITCH GOLDSTONE

The Winter Olympics in Turin, Italy, banded the world together. Just days ago, as the Olympic flame was extinguished, another blazing fire—economically representing one of the mightiest antitrust cases—has rekindled intense fervor around the globe.

As Olympic spectators shopped for merchandise, merchants encountered an Italian interchange fee half the rate charged in the United States. With nearly 100 separate U.S. interchange fees, calculating these charges is a disturbing puzzle.

On average, the merchant interchange fee in Italy is just 0.7% of the sale, while in the United States, which enjoys less risk of credit card fraud and is home to the world's most-advanced technology, merchants are charged about 1.7%. The lower rate in Italy was not just a

temporary gift from Visa International, but a signal of what is wrong with this global, unbridled tax on merchants and consumers.

As co-owner of a California-based retail and online boutique photo service, my company also is lead plaintiff and a class representative alleging that Visa, MasterCard and their member banks engage in illegal, collusive practices of price-fixing interchange fees.

Unlike credit cards, PIN-debit cards instantly deduct funds from a consumer's bank accounts. Yet both are connected to alleged illegal price-fixing by Visa and MasterCard through predatory schemes to charge by agreement merchant interchange fees well above competitive levels.

At checkout, when shoppers enter their personal identification numbers, the banks' market power sometimes forces retailers to unwittingly pay higher-cost, signature-verified debit card interchange fees. Most retailers, especially small businesses, are unaware of the steep differences in costs when accepting various cards, or when they must swipe a card through a manual imprinter because the magnetic stripe is worn. Occasionally, the assumed PIN-debit card interchange fee limited to 50 cents to 75 cents may be riddled with substantially higher, electronically substituted fees.

To personalize this battle pitting Visa and MasterCard against its

two core customers—merchants and consumers—here are two recent customer experiences:

One customer initiated a transaction with a debit card, but I was forced to pay credit card interchange rates. This transaction for nearly \$400 was declined because of the cardholder's \$300 daily limit on PIN-debit purchases.

The issuing bank, though, confirmed that funds were available and requested that the transaction be processed instead as though it were a regular Visa charge card. Immediately, funds were then deducted from the customer's bank account, but instead of paying a merchant interchange fee of under \$1, I was charged nearly \$10, even though processing the transaction as a debit card with PIN-based authorization is more secure.

Another recent example involved a prepaid MasterCard debit card. The customer did not know the PIN number and explained that none was provided. Therefore, instead of paying a limited interchange fee, I was forced to swipe the card as a charge card. And although the full amount was instantly deducted from the card's prepaid value, the interchange was assessed at the higher rate.

By drawing daily attention to the global interchange war, I am joined by millions of merchants and consumers also intent on battling Visa's and MasterCard's unbridled greed. We are not questioning the value of electronic payments, but rather the alleged violation of antitrust laws, which were established more than 100 years ago to protect against price fixing and anticompetitive practices. **CP**

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