

Extract from Hansard, dated 10 December 1981

Credit Cards

1. Mr Anthony Grant asked the Secretary of State for Trade whether he has decided to follow the recommendations in the Monopolies and Mergers Commission's report on credit card franchise services; and if he will make a statement.

2. Mrs Sally Oppenheim: The commission made two recommendations. First, it recommended that the Joint Credit Card Company—Access, Barclays, American Express, Diners Club and other suppliers of credit card franchise services should be obliged to abandon the 'no discrimination' policy, under which they excluded or restricted a trader's freedom to charge different prices for goods or services purchased by credit card from those charged for by other means of payment, and that the terms of the existing contracts providing for this should be declared unenforceable and future introduction of such provisions made illegal. Secondly, it recommended that both the Joint Credit Card Company and Barclays should give assurances to the Director General of Fair Trading that they would not in future discuss matters which were likely to lessen the degree of competition between them in supplying reference services.

3. My right hon. Friend has decided against action at this time on the first of these recommendations. Action has been taken on the second. I should make clear the effect of this decision. At present, differential pricing, and in particular the imposition of surcharges for credit card users, is a matter for arrangements between traders and the credit card companies. As the commission reported, most credit card companies have arrangements with traders which do not allow traders any freedom to surcharge. The effect of my right hon. Friend's decision is to leave those arrangements unchanged.

4. In taking this decision my right hon. Friend has carefully considered the report's findings and recommendations. He accepts the analysis in the report; and, as regards surcharges, he has considered the undoubted case made in the report for removing the restrictions currently placed on traders' freedom to surcharge. Much of this case rests on arguments about the efficient use of resources in the economy, and about price distortion through cross-subsidisation between cash and credit card customers. At the moment the distorting effect of the 'no discrimination' rule is minimal, because the proportion of traders' sales represented by credit card payments is generally very small. But my right hon. Friend recognises that the risk of distortion is greatest where the proportion of trade is greatest, although even in the petrol sector the proportion is relatively small.

5. Against the economic argument my right hon. Friend has had to weigh consumer convenience. Bearing in mind the possible effects on tourism, my right hon. Friend has also had to consider international practice. Since the report was published, surcharging, while mainly prevalent in the petrol sector, has spread into others leading to a wide measure of confusion and inconvenience to consumers. Any general requirement that traders should display information about surcharges would impose undue burdens on traders, be difficult to enforce, and probably still leave consumers confused. My right hon. Friend believes the evidence shows that the absence of surcharges makes for general convenience; and he has, on the balance of the arguments, reached his decision accordingly.

6. My right hon. Friend recognises that the Government's decision will come as a disappointment to petrol retailers, who have made representations about the impact of the credit card companies' charges on their profit margins if they were unable to impose surcharges. The Government would be taking steps to keep themselves informed of the progress of any improved arrangements made between the card companies and the petrol retail trade.

7. But the report clearly points to the need for the credit card industry to reconsider existing patterns for charging for the services they offer. The two principal United Kingdom credit card

companies operating Access and Barclaycard have stated that they are taking steps to do so. My right hon. Friend hopes that they will be ready to act on the evidence in the report and the commission's observations, and he will take careful note of the steps which they take both now and in the future.

8. I must make clear that, while not acting on the commission's main findings, my right hon. Friend intends to maintain pressure for greater competition and a fair charging structure in the credit card market as it develops. In accordance with the report's suggestion, he is asking the Director General to keep this market under review. The Director General will consider in due course whether to make a further reference to the commission, covering the companies' services to traders and cardholders, as the Monopolies and Mergers Commission suggested in its report.