Electronic Commerce Study Committee

Statement
Petroleum Marketers and Convenience Stores of Iowa

Senator McCoy, Representative Soderberg and members of this interim committee, on behalf of more than 2,000 member-owned business locations represented by the Petroleum Marketers and Convenience Stores of Iowa, I would like to thank you for the opportunity to submit testimony on this important topic of electronic commerce and the cost to businesses.

More than two-thirds of our members are small businesses and what we consider “mom and pops” that own or manage less than three business locations. Swipe fees are consistently the highest reported challenge and expense (second only to labor) for all of our members, big and small. The way these fees are set by banks that issue credit and debit cards, as well as the conditions for accepting those cards is unfair for businesses across the state. The increased rates and card usage has led to a huge increase in fees paid by my members. If these increases weren’t enough, businesses across the state are paying swipe fees on the taxes we collect and remit to the state. We could spend days reviewing the complexities of financial transaction and the perceived technological barriers that would prevent banks from implementing a solution to this problem. My remarks herein, however, will pertain to the issue at hand.

The debit reform passed as part of the Dodd-Frank legislation was an important first step towards fixing the broken swipe fee market. Still, swipe fees remain too high, costing our members millions every year. The Iowa study bills proposed in 2012 were intended to be another step towards making the payment card market a more equitable place for all businesses and reducing the costs for Iowa’s businesses

PMCI is pleased to support the legislation that calls for a prohibition on banks charging swipe fees on taxes. From the largest chains to the individual station owner, these fees represent a significant cost to petroleum marketers across the state. Department of Revenue statistics for fiscal year ending June 2012 show that Iowa’s petroleum marketers remitted $478,567,943 in taxes to the State averaging nearly $40,000,000 tax payments per month. The associated tax rates per gallons sold of gasoline, gasohol, E85, aviation gasoline, aviation jet, diesel, LPG and CNG average out to approximately 21-cents per gallon. With the proliferation of payment cards, our data shows that 70 percent of these gallons were purchased with plastic. A conservative estimate of 2% average fees, shows Iowa’s petroleum marketers are paying $6,699,951.21 to collect motor fuel taxes for the State. These numbers become even more troublesome when you consider the talk of increasing this tax. A five-cent increase in the gas tax would translate into approximately $8,295,178 in fees simply for collecting more tax.

The majority of our members are in the convenience business. As a result, our customers have come to expect their interactions with us to be brief and convenient. During the brief debate on this issue during the last session, opponents of the legislation claimed that businesses do not have to accept cards. That’s right, businesses don’t have to accept credit or debit cards. However, how long would they stay in business? Card acceptance has become akin to a utility, thanks to operating rules that keep consumers in the dark about the true downsides of card acceptance. This statement is as ridiculous as saying a business could operate without power or telephones.

The petroleum marketing business is highly competitive, and profits are very, very narrow. Generally speaking, if input costs go down for our members, prices fall for consumers. In short, if their prices do not respond to the market, they lose customers. The same economics do not apply to banks. The inability of merchants to go to a competitor bank to get a better deal on swipe fees is simply devastating. Economists at the Kansas City Federal Reserve have found that merchants cannot realistically refuse to accept Visa and MasterCard even though interchange costs far exceed any benefits those merchants receive by accepting cards.

Opponents of the legislation also claimed that bill would shift the cost of processing payments from the retailer to the consumer. This objection implies that consumers are not already paying the price for high swipe fees. Fees are embedded into the retail price of nearly everything we sell. Iowans already pay increased prices for virtually everything because of these fees – they just don't know it because they never get a disclosure from their bank telling them any swipe fees were charged.

A 2009 study by the Hispanic Institute found that the business model by which fees are embedded in retail prices without disclosure, combined with the rewards that some affluent cardholders get, leads to a regressive transfer of wealth from low income consumers to high income consumers. This regressive wealth transfer is more than $1 billion every year. The study did not even take into account the 27 percent of U.S. families who do not have credit cards – but are still paying inflated prices due to interchange. Similar studies have been commissioned and found the same regressive result.

Finally, our opponents claim that the technology structure to support this legislation does not currently exist, so it imposes severe and costly burdens on all businesses in the processing chain, including merchant processors, networks, issuer processors, issuer's backroom systems, and financial institutions.

Our members can plan for most business costs. However, they cannot plan for the rapidly rising costs of interchange fees. The thousands of banks under the Visa or MasterCard umbrella charge precisely the same schedule of fees. And the increases are unpredictable. Businesses don't know how much they will go up. Even after new rates are announced it is difficult to predict how those rates will impact a merchant's fees because the card networks have made the system so complex. The Government Accountability Office reported that Visa and MasterCard each had four credit card rate categories in 1991, but by 2009 Visa had 60 rate categories and MasterCard had 243. The fact is rate categories are increasing and becoming more complex each year.

The phrase "there's no money in a cure" comes to mind when I contemplate the statement about the lack of a technology structure to support the legislation. If the banks can keep track of hundreds of rate categories and award points or miles on everything from the purchase of fuel, lumber or toilet paper, we believe it seems a bit dubious to claim technological barriers. We believe technology does exist with larger merchants and processors. Where it does not exist, the manual process recommended in the legislation can be easily implemented as a stop gap. The legislation enables a business incapable of segmenting the taxable portion of a sale to apply for a credit on the interchange charged through a simple reporting process.

Technical challenges, even if they existed, should not trump the inherent inequity of charging a private "tax" on the profitless process of collecting taxes for the state.

As prices increase, tax collection increases. This is especially true as the legislature considers an increase in the gas tax. A fee on tax collection cannot be justified. I encourage this committee to carefully consider this issue and put forth recommendations that will enable the General Assembly to implement solutions that will provide relief to businesses across the state.

Respectfully,

Dawn M. Carlson, CAE
President
Petroleum Marketers and Convenience Stores of Iowa