

## CONCLUSIONS AND PROPOSALS

From this research ADICAE has concluded the negative experience Spain has gone through since the Government 2005 Agreement about reducing 70 million/€ on exchanges taxes for credit and debit cards. An agreement that costumers organizations have been excluded from.

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### **Facts: 5 damaging factors for the consumers**

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Lowering Taxes have negatively impacted consumers and Spain's economy in five aspects including; two official statistics that reveal ADICAE survey questionnaires completed by 3,561 are valid, and three types of damage induced already pointed out by other studies whose conclusions subscribe:

**1. Major Increases in consumer prices** Generally, characterized the seller failed to meet the Reducing agreement from 2005, and did not apply the savings to the final price. In other European countries these skyrocketed for the main beneficiaries. Similarly, their sector prices rose more than in previous years, even-though the 2007 economic crisis moved in the opposite direction.

**2. Increased financial costs.** Additionally, the bank system has more than offset any revenue reduction that produced that agreement, by much larger increases in various fees and interest rates credit cards. Both also rose up more than other countries of the Eurozone where rates fell not like and also a higher rate than in previous years.

**3. A decrease in private consumption, economic growth and employment.** Instead of reaping from the benefits of the agreement in 2005 Spanish consumers have been hindered from these macro-economical shifts, and are evident in the previous research conducted by ADICAE. These negative macro-economical effects, are derived from the lack of development of card payments and cash only, and collateral damages for electronic payments to banks and to sellers.

**4. Increase in taxes and decrease in social funding,** In consequence the shift cash only has an increase in a non-regulated economy. The loss of unpaid taxes obliges States to increase fiscal pressure to consumers as contributors, and cut loan approvals and social services.

**5. Less competition in commerce and violations in trading.** Consequently, this have caused lower exchange rates and a significant recession since 2005 until the end of 2010. It was a price-fixing agreement and it slowed down the trade competition, a sector least open as demonstrated in international comparative index.

The nonexistent contribution to improve the production, marketing, good and services distribution and promoting technical or economic progress, they are facts that have affected Spain as much as other countries of the Eurozone where such rate reductions were imposed. This economic legal and social analysis means that all proven breaches contravene the European Treaty , besides being against to the 1st Article of the Spanish Competition Law. The Law in its articles 101 and 102 goes as far as to declare these infractions inapplicable into consumers benefit competition. In this case, unlikely Spain has been injured, and the data shows magnitudes that could be expanded to all of Europe if the Commission reproduces the Spanish case.

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## **Data of the 5 main damaging factors for the consumers.**

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### **1. Higher consume-prices increases**

- Total: from 2005-2010, the Spanish RPI harmonized went up a 15%, almost a 25% over the Eurozone (11.3%), instead of the lost production during this period.
- Lower rates and higher prices: The fee reduction should have lowered prices 1.22% alone in retail, but it is up 15% compared to 11.3% in the Eurozone. Higher than that were the differences in other sectors; savings of 1.4% in telecommunications, which became more expensive to the 21%, more than double of the 8.9% in the Eurozone; 1.3% restaurants and jewelers, who applied shortages of 18.8% and 85.9% respectively, between 5 and 30 points difference from the average of the euro; savings of 1.2% in transport, which raised their prices by 34%, also a double amount over the Eurozone; the 0.23% in supermarkets groceries, increased a 13.3%, 1.1 points higher than Euro-countries. An increase of the 0.07% at the pumps, until a 29, 6% more than the European average.
- Higher sales margins: The sum of savings rates and price rises, improved a 16.2% comparing to the margins of retail trade, with a band that goes from 13.5% in supermarkets to 87.2 % of jewelries, 35% in transport, 30% at gas stations and more than 20% in restaurants and telecommunications.
- The lost of balance between Spain and the Eurozone, thrown by the data of savings margins and higher prices in retail, has reached almost 5% of sales and 6% in restaurants and gas stations. It exceeded a 30% in jewelry, 17% in transport and 13% in telecommunications. Only 1.3% in supermarkets.
- Improvement in cost efficiency: The profitability of these commercial sectors benefited improved in the first two years and has been affected less than others during the crisis. Through the period 2005-2010, while the Spanish energy industry and energy decreased their average profitability (from 3.7 to 2.9 points; levels were over 9.8% and 8.9% in 2005), trade and hospitality industry has reduced their benefits softly (2.6 points over 10.3% of returns exhibited in 2010) despite the decline in total sales.
- Consumers surveyed said that they ignored the majority of these effects: 54% said that not even know, and only 16.2% agree with the correct answer when choosing between the three options. But the vast majority believes that if rates drop, commerce wont vary product prices and instead increase bank fees for cardholders. For almost 90%, the main advantage of purchasing cards is to pay cash without carrying a big amount of money (89.2% of surveyed individuals), while the advantage of discount is only cited by less than 16%<sup>2</sup> °)

### **2. Higher financial costs:**

- The shopping cart increasing prices purchases power of consumption, while financial service prices has rose by 27% in Spain during the last year. This is almost five times more than the entire Eurozone (5.8%). Of all of the European countries, only Slovenia and Slovakia have had more increases than Spain.
- This happened because some of the retail sector members have used rates discount to reduce their financial expenses. Even when financial incomes increased without lowering consumer prices during the economic boom prolonged until 2008. - The banking system has managed to defend of the lower incomes by interchange fees (CAs) and discount rates (acquirers companies). The result of it has amply compensated the reduction of income, using two types of price increases, which total amount is much higher than rates decreases:

A) The various commissions of cards emission and renewal (71.5 million at the end of 2010, of which nearly 42.9 are credit cards and 28.6 debit cards) with the announced raise has accumulated more than 2,300 million euros between 2006 and 2010. This is about 80% of the 2,700 million euros non paid by traders to banks after the rates discount came down from 1.52% to 0.74% on average.

B) In the majority of credit cards interest rates reached an average of 19,32% average in 2010 in Spain. This has to be compared to the 16.59% across the Eurozone (including Spain itself that represents almost 13 % of all). That extra cost of 273 basis points faced by Spanish consumers represents only 1.911 million euros in 2010, before risk premium went up sharply. The growth of consumer receivables from, nearly 26,000 million euros in 2005 to 70,000 million at end 2010, contributed to that extra cost.

- These results are supported by the consumers surveyed, among whom the fees are the main perceived negative aspect of the cards (54.8%) and almost all (96%) think they have increased bank profits. Only 8.7% believe that thanks to the increase in fees has improved security and a low 4.5% variation fees associated with an investment to improve service, goals also were among the 2005 agreement
- 83.5% of respondents believe that the card fees go up and only 4.7% that would go down well if reduced rates that banks charge to merchants. Informed of what are the rates of exchange and discount, 62.7% believe that they will go down if the fees paid by having cards, only 8.1% said they believe that they, and the rest did not know what to answer.
- However, the opinions and desires of consumers indicate that a reduction in interchange fees and discount fees should never assume more charges. Therefore 87.4%, are in favor of capping compared to only 3.4% otherwise.
- Consumers believe that the "fair price card" should be in a maximum of 20 euros per year, the third part of what is real now. But 20% does not remember or does not answer about the price they pay and 41.1% indicated an amount under 20 euros a year.

### **3. Lower consumer spending, economic growth and employment:**

- Since the economic crisis began in 2008 until 2012, the contribution of consumer cards, the growth and employment, is in Spain a quarter of the world average, according to a study of the agency Moodys (2013) between the 56 countries with the highest worldwide income. These cards consumption rose by 0.7%, and in Spain only 0.16% (5,700 million euros with added value in the five years), despite the minor business with a starting supposed development stimulus to higher growth.
- Nor can attribute most of that negative differential Hispanic adjustments to the debt crisis in the European periphery, as Ireland where the cards provided a 0.99% consumption since 2008, 0.39% in Portugal and Italy 0.21%.
- According to ADICAE survey, the 30% of consumers use the card only 1-4 times a month, another 33% use it daily or almost daily, and 37% use it for 2-3 days per week.
- 66.7% said use little cards (37.1%) or very little (29.6%). That is, paying for purchases with them some days, two or three days a week or too little: from one to four times per month. Only a third of respondents use them almost every day (26.2%) or four to six days a week (7.1%).

#### **4. Higher taxes and lower social benefits:**

- As suggested by numerous studies (out of Moodys, Func, Gestha, etc.), the vast majority of consumers surveyed share the view that cash payments encourage the growth of the non regulated economy, and with it the loss of tax requires the State to raise the tax burden and to trim them benefits and social services.
- Therefore, almost 80% (79.7%) believe that traders higher prices should not apply to those paying with respect to those who do it in cash, while conversely 75.3% say that neither should be more expensive for using cash.

#### **5. Less competition and violations of trade against it:**

- Although official statistics from international organizations say the Spanish business sector is one of the least open to competition in Europe (OECD indicators). The results of the 2005 agreement also have high convergence gap with the rest of the Eurozone.
- Everything noted above and ADICAE economic, legal and social analysis indicate that besides contrary to Article 1 of the Law on Competition of Spain, the proven violations contravene the great European Treaty, and in particular of its articles 101 and 102.

**In conclusion**, neither the consumer has benefited from price declines, and the sector has gained economic efficiency. Spain has not moved towards convergence with Europe, but quite in the opposite direction. Neither the safety of these payment methods, and consumer confidence in them, have been reinforced, despite the shifting of costs from the financial sector that has occurred to the users.

## Proposals to prevent major damage to consumers

-1) **Review of the European project of lowering exchange rates**, after hearing ADICAE and similar consumers organizations while making process decision. Instead, the infamous Spanish experience **advises boost with reducing regulation and control of all costs and prices paid by consumers to the financial sector and trade**. Also technological evolution in consumption habits have to lower discount rates (as in small payments), ensuring this impact in consumer benefit. Therefore create mechanisms to monitor that trade movement, lowering costs and prices, giving full and effective participation of consumers in the observatories, forums and other European institutions and national social control.

-2) **Encourage the reduction of all fees and interest rates** that hinder the development of general cards and all other electronic payments. In addition there is a need **to establish mechanisms to prevent minors banking revenues resulting from a reduction in the rates of exchange to be offset by increases in fees and interest to consumers** (or else give up exchange rate declines driven from power executive). It is necessary to improve the draft directive on transparency in bank accounts, including debit transactions made with credit cards.

-3) **To promote private consumption** and thus economic growth and employment, **financial literacy campaigns and efficient use of electronic payments**.

-4) **Discourage black economy with appropriate stimulus**, being an example of intensive use of electronic payments and income from government. Even raising the penalties for using cash in fraud and corruption, which eventually harm consumers causing the rear track of higher taxes and lower benefits.

-5) Increase trade competition and punish offenses against it so that **consumers really favor and not the lobbies of banks and big business**.