FEEDBACK FORM

Name of undertaking: **Citibank NA**

Industry (network, current/potential acquirer, current/potential issuer, processor, other third party provider (e.g. merchant service provider), merchant (industry needs to be specified), other): **Current Issuer**

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Participated in the questionnaire: **Yes**

Specific questions from Executive Summary:

Please see attached submission.

General comments:

Please see attached submission.

CITIBANK RESPONSE TO THE EUROPEAN COMMISSION'S INTERIM REPORT ON PAYMENT CARDS

INTRODUCTION AND SUMMARY OF CONCLUSIONS

1. Citibank welcomes the opportunity to comment on the Commission's Interim Report on Payment Cards (the "**Interim Report**").

2. Citibank is an emerging participant in the EU, where our activities include the issuing of both debit and credit cards under the brands of a number of payment card associations. Citibank currently issues payment cards in 13 of the 25 Member States of the EU.[1] We operate both in established markets such as the UK and Germany as well as in new Member States such as the Czech Republic, Hungary and Poland, where payment cards are a newer feature of the sector. We believe our geographic presence makes us well placed to comment on the issues raised by the Commission from a pan-European perspective. This response therefore relates only to Citibank's payment card activities in the EU.

3. Overall the Interim Report:

   (a) Correctly highlights the problems created by the differences in legislation and market practice between Member States;

   (b) Underestimates the benefits of payment cards to merchants, consumers and the wider European economy;

   (c) Overstates the profitability of issuers, and does not appear to take into account the costs associated with issuing cards in Europe. The profitability of issuers reflects the nature of the products and services offered, including the associated risks and costs, rather than an exercise of market power; and

   (d) Does not take into sufficient account that differences in the levels of fees in Member States result from a wide variety of factors peculiar to individual

[1] Citibank issues Payment Cards in Belgium, the Czech Republic, Germany, Greece, Hungary, Italy, Poland, Portugal, Spain, Sweden, and the United Kingdom.

Members States – including levels of usage, costs, scale and regulatory intervention. These differences cannot be fairly attributed to acts or omissions of issuers of payment cards.

4. At present, there is no single market for payment cards in the EU. Citibank, as a pan-European card issuer, would welcome steps to break down what are currently largely national markets that are subject to multifarious regulatory, tax and accounting regimes. Should the Commission be successful in such an endeavour, a single European market in payments cards would likely lead to cost savings and even higher levels of competition, resulting in benefits both to consumers and the wider European economy. However, given the wide variations in underlying costs arising from the different conditions historically prevailing in the different Member States, Citibank would caution against measures in isolation to standardise fees across Europe. Such measures in isolation could have significant unintended and likely negative consequences for both consumers and merchants.

5. Citibank is particularly concerned that unnecessary changes to the structure of the market, or unnecessary additional regulation, could significantly damage the ability of new entrants to enter and expand in the market. Any such changes would impede the achievement of the Commission's Lisbon goals. In particular, the efficiency and competitiveness of the market, and the broader benefits of credit and debit cards to cardholders, merchants and the wider economy, would be compromised if new entry or expansion were limited by the unintended consequences of legislative action.

6. Citibank's response is limited to the following aspects of the Interim Report, which have particular relevance to its business in the EU:

(a) by focusing on the profitability of banks, but ignoring the significant benefits of credit and debit cards to merchants and cardholders, and the European economy as a whole, the Interim Report does not provide a complete view of the sector;

(b) the Interim Report's conclusions on profitability require extensive further review if they are to be used to justify changes in legislation or regulation – any future action based on these findings would risk distorting market incentives and in particular could damage the ability of all but the largest players to compete;

(c) the Interim Report reaches various negative conclusions as regards the level of fees and finds that there are certain differences in the level of fees that apply in individual Member States – in doing so, the Interim Report does not appear to take into account the various reasons (unrelated to the payment card industry) for such differences; and

(d) the ability of issuers to enter into agreements with other entities that do not operate in the financial services sector ("**co-branding**") should not be impaired. These arrangements provide an effective means for smaller issuers to gain market share and for a range of services to be provided to cardholders by parties that are not traditionally card issuers. Citibank would be concerned if any action were taken that distorted the incentives both of issuers and others to enter into co-branding agreements.

7. Citibank's comments are limited to the issues outlined above. Should the Commission require further input regarding any other aspect of the Interim Report, Citibank will be pleased to provide such comments.

THE BENEFITS OF CREDIT AND DEBIT CARDS

8. Both credit and debit cards bring considerable benefits to cardholders, merchants and the wider economy. The Interim Report does not appear to recognize the extent of these benefits, or the costs to merchants and consumers of alternative forms of payment. Citibank believes that any complete analysis of this sector should begin with an understanding of the costs associated with other forms of payment. In particular it would be wrong to assume that cash is "costless" – indeed the Dutch study to which the Interim Report refers[2] confirms that cash has the highest average costs per transaction. The Interim Report does not appear to recognize that any action that has the intended or unintended consequence of reducing the use of credit and debit cards would be significantly adverse for the European economy.

[2] Interim Report, page 11.

9. Particular benefits of payment cards include the following:

(a) **Merchants** – There are many benefits to merchants of credit and debit cards, which include:

(i) Increased sales – Merchants benefit from increased sales as cardholders have at their disposal a flexible payment option. Smaller merchants in particular benefit from this flexibility, as it allows merchants that could not offer credit on their own to compete with larger retailers that offer credit themselves through (for example) store cards. Many studies have shown that consumers with credit cards will spend more as compared to consumers using cash only. This stimulation of consumer spending, which has been lagging in Europe, is an essential element of future economic growth and sustained economic recovery.

(ii) Improved cash flow – Merchants accepting credit or debit cards are generally provided with speedy settlement by the card acquirer – this compares favourably with some other forms of payment, including cheques.

(iii) Improved security and ease of administration – Security is improved as a result of reducing the level of currency (i.e. cheques and cash) that merchants have to handle. Opportunities for theft by employees and robberies are reduced. This in turn reduces the costs to the merchant as regards insurance and cash handling charges and other related costs. In addition, the greater administrative burdens on merchants as regards the need to track cash, and in ensuring that there are sufficient amounts of cash to deal with customers on a day-to-day basis, are costs that are significantly reduced by the use of payment cards.

(iv) Payment guarantee – Merchants benefit from payment guarantees as regards both cardholder default and fraudulent transactions – this is not the case with un-guaranteed cheques, counterfeit cash or fraudulent cheques.

(v) Increased customer base – Payment cards have been critical in promoting the development of new sales channels, most notably in the area of e-commerce as well as facilities such as unmanned terminals and telephone sales. Payment cards are a vital part in ensuring merchants of all sizes can participate in a market where customers are no longer constrained by geography and fostering cross border consumer trade.

(b) **Consumers** – There are significant benefits to consumers from using credit or debit cards, including:

(i) Flexible payment – As regards credit cards, cardholders have the benefit of a pre-arranged credit facility that allows them to defer payment for goods or services over a convenient period. In addition, those consumers who pay the balance of their credit card in full at the end of the billing cycle effectively receive free credit. The availability of an unsecured credit facility that can be drawn on up to an appropriate limit, is an essential element in tackling financial exclusion. Credit cards currently offer access to credit to many individuals who in the past would have had no means of obtaining such a facility or would be forced to borrow on high interest rates from informal credit providers. Unnecessary changes in the way in which the sector is regulated could jeopardize this position, undermining the goal of providing a basic range of financial products to as many sections of society as possible.

(ii) Convenience and security – Payment cards permit consumers immediate access to funds without the need to carry cash. As a result, consumers no longer need to make frequent trips to the bank. This is not only more convenient but also means cardholders are less exposed to the risk of crime and fraud than with cash or cheques.

(iii) Ease of cross border credit – Cardholders using cards issued under an international association brand can use their card at their local store, across the EU or indeed almost anywhere else in the world in the same convenient manner. Payment cards are safer, more convenient and more accepted than travellers cheques.

(iv) Improved consumer choice – Many payment cards offer consumers access to popular enhancements, such as rebates and rewards that match their interests or spending patterns.

(v) Improved consumer protection – As regards credit cards in particular, cardholders benefit from additional consumer protection against unsatisfactory goods or services, and are not responsible for fraudulent transactions made using their card. Credit cards act as an informal and speedy dispute resolution mechanism in cases of disputed transactions, at no cost to cardholders. Other payment mechanisms do not offer such services to consumers.

(vi) Ability to use innovative shopping channels – Cardholders have the choice of traditional and new ways to purchase goods and services, in particular via telephone sales and Internet channels. Backed by the confidence of the consumer protection described above, cards have been instrumental in the development of e-commerce.

(vii) Consumer Control – Payment cards give consumers greater control over their finances and provide tools for money management. In particular, consumers can track with precise accuracy what they spend and where, and with the growth of online access, can track such activities in almost real time.

10. The overall findings of the Interim Report fail to recognize the significant benefits of both credit and debit cards to merchants and consumers that are outlined above. In particular, by focusing on the profitability of issuing or acquiring payment cards, and the level of fees, but ignoring the wider benefits of such cards, the Interim Report does not provide an accurate overview of the costs incurred in offering these products.

PROFITABILITY

11. The Interim Report concludes that:

> "*the high and persistent profit ratios found by this inquiry in relatively mature markets, together with other evidence collected on entry barriers, suggest the existence and exercise of market power in these markets*"[3]

12. More specifically, the Interim Report concludes that:

(a) on a pan-EU scale, credit card issuers had a weighted average profit-to-cost ratio of 65 per cent in 2004, while debit card issuers had a weighted average profit ratio of 47 per cent;[4]

(b) 62 per cent of those banks surveyed that issue credit cards would still be profitable even if they did not receive interchange revenues.[5]

On the basis of its findings, the Interim Report asks whether: "*In light of the apparent profitability of card issuing, is there a generally applicable justification for substantial revenue transfers through interchange fees in card payment systems*" and "*Are the high profits observed due to innovation or do they arise from some kind of market power in a two-sided industry*".[6]

13. The Interim Report's findings on profitability, and the conclusions it seeks to draw from those findings require further clarification. Citibank would appreciate the opportunity to better understand the methodology that led to the figures relating to profit contained in the Interim Report, and to discuss these points in detail with the Commission.

14. Pending such discussion it should be noted that:

(a) The figures referenced in the Interim Report in this area do not appear to reflect Citibank's experience of card issuing in different EU Member States.

[3] Interim Report, page 77.
[4] Interim Report, page iv.
[5] Interim Report, page 76.
[6] Interim Report, page ix.

(b) In analysing the profitability of issuing, as regards either credit or debit cards, the Interim Report does not appear adequately to take into account the costs incurred by issuers, including the cost of providing credit, and the fact that (for example) in the context of international transactions, the currency risk is a cost to issuers.

(c) The Interim Report suggests that profits are too high, but fails to specify what it considers would be an appropriate return, given the nature of the activities, investment required and the significant risks involved; and

(d) In respect of interchange rates, the Interim Report does not appear to take account of their role in the wider payment structure that underpins the success of the payment cards sector. Such rates are determined by market-based competition and ensure that the costs of operating and improving the payment card system are shared by all of those who participate. Removal of this revenue stream would constitute price regulation that would interfere with such market forces and the incentives that both card issuers and card acquirers have to participate in this market.

Once these factors are given their proper weight, it is clear that the profitability of card issuers reflects a market driven system that allows for competition to thrive and provides incentives for innovation and investment to continue, rather than the exercise of market power.

15. Any action taken to reduce or regulate profitability would distort incentives on the part of existing players to expand and innovate, thereby discouraging new entrants, and possibly encourage current participants to exit the market. Given the importance of payment cards to the wider economy, and the development of e-commerce in particular, reducing or regulating profitability in the payment card sector would have significant economic consequences.

Costs

16. The profitability analysis contained in the Interim Report is based on data supplied in response to questionnaires issued by the Commission. This data is used to support the statement that:

> "*the allocation of revenues and costs, based on accounting data, was made by the respondents. Thus, the measurement of profitability has to be considered reliable because it was made by those who best know their own business. … total costs include costs for the provision of a free funding period, card production and transaction processing costs, billing, fraud, credit losses, costs related to rebates, staff costs and "other type of costs". The parameter "other type of income/cost" aims to capture any other relevant type of income or cost in the acquiring and issuing of cards, as perceived by the respondents, which does not fall under the other categories. Costs related to the depreciation of assets, for instance, could be included in this category.*"[7]

17. Citibank would caution against using the figures provided in the Interim Report as a basis for decision-making in this area. In particular, Citibank notes that:

    (a) It is difficult to identify with consistency what proportion of a financial institution's underlying costs should be attributed to a particular business activity. For example, given their importance to market penetration in the payment card sector, a proportion of the costs of maintaining a branch network should properly be allocated to issuing activities. Different financial institutions have different policies in this area. The absence of a uniform approach in this area means comparisons are unlikely to be accurate.

    (b) As regards credit cards in particular, the cost of providing unsecured credit to cardholders would not appear to have been included in the Interim Report's analysis. Citibank would welcome the opportunity to discuss this matter with the Commission.

[7] Interim Report, page 63.

(c) It is extremely difficult to extrapolate comparable profit figures for credit cards and debit cards. A credit card is a stand-alone product with defined benefits. Debit cards are a component of the wider current account relationship with a customer, the fees for which vary significantly across both Member States and the EU. Debit cards do not typically provide the wide range of benefits available with credit cards.

(d) Certain costs, for example marketing costs, the costs of providing cardholder support services, and the costs of customer acquisition, account for a significant proportion of the wider costs incurred by issuers. However, it is not always possible to identify the proportion of these costs that should be attributed to issuing activities compared to other activities undertaken by a financial institution.

(e) No guidance was provided by the Commission as to what should be included in the category of “other costs”. Therefore, there are likely to be considerable inconsistencies between the approach taken by respondents, and even divisions within respondents, as to what was included in this category.

Profitability Levels

18. Although suggesting that profit levels are too high, the Interim Report does not seek to establish what it considers would be an appropriate level of profit in the payment cards sector. Citibank believes the proper focus in this area is to ensure that the conditions are present for competition to thrive and for new entrants to come into the market rather than focussing on whether profits are too high.

19. It is noteworthy that the Interim Report also bases its conclusions on data obtained over a relatively short period, during which most Member States were enjoying generally benevolent economic conditions. Extrapolating data from such a defined period to make general conclusions about this market means the challenges of those periods where economies are in downturn is ignored. During such periods of economic uncertainty, the payment cards industry is extremely vulnerable to changes in consumer behaviour, which have the effect of reducing revenues and profits for issuers.

20. Citibank notes that its own profitability levels cannot be described as being excessive and do not resemble the figures suggested by the Interim Report. The Interim Report's findings as to the profitability of issuers of both credit and debit cards will not apply to all players within the market. Citibank would be concerned if the Commission reached any final conclusions or took any future action on the basis of a generalized view of profitability – this would have the effect of distorting market incentives and the ability of all but the largest operators to compete in the sector.

21. In implying that the profit levels identified reflect market power on the part of issuers, notwithstanding the fact that the stated profit levels referred to in the Interim Report are problematic for the reasons given above, the Interim Report also fails to consider the wider context of issuers' activities. For example, as stated at paragraph 17(c) above, debit cards are only one aspect of a wider service offering.

Interchange fees and profitability

22. As stated, the Commission's initial conclusion that a number of banks would remain profitable without interchange revenues does not provide a full picture. Interchange fees reflect the costs of (for example) the processing of transactions, payment guarantees, and the funding of interest free periods.

Conclusion

23. The Interim Report appears to overstate the level of profitability in the payment cards sector – in particular, the findings of the Interim Report on profitability do not reflect Citibank's experience of card issuing in the EU. The profitability of issuers reflects the nature of the products and services offered, including the associated risks and costs, rather than the exercise of market power. Should the Commission reach any final conclusions or take any action on the basis of a generalized view of profitability or a mistaken view that the profit levels it has calculated reflect market power, market incentives would be distorted, and the ability of all but the largest operators to compete in the sector would be jeopardized. We believe this to be the opposite of what the Commission, and the cards industry, would like to achieve.

INTERCHANGE FEES

24. In addition to its conclusions on profitability, the Interim Report makes a number of specific observations regarding the level of interchange fees, and seeks to base a number of conclusions on those observations. For example, the Interim Report concludes that:

> "*Interchange fees… have an effect similar to a tax on each payment with a card at a merchant outlet*" (emphasis in original)
>
> and
>
> "*it would appear important to what extent interchange fees are de facto (also) used as [a] tool to extract rents from merchants*" (emphasis in original)[8]

25. However, in making these observations, the Interim Report does not appear to take into account the benefits of credit and debit cards to cardholders, merchants and the wider economy; nor does it take into account the full range of factors that are taken into account when interchanges fees are set. Any action taken on the basis of the Interim Report's observations, without a full analysis of the factors taken into account when setting interchange fees, would risk distorting incentives and as a consequence diminish the benefits of credit and debit cards to cardholders and merchants.

Differences in interchanges fees between Member States

26. Citibank is particularly concerned by the suggestion made in the Interim Report that the fact that interchange fees are higher in some jurisdictions than others "*may be a question of market power*".[9]

27. It is correct that different market conditions apply in each of the 25 Member States – given the large number of Member States and the different market conditions prevailing, it is not surprising that differences exist as regards the level of interchange fees. As the Interim Report recognizes, the structure of national interchange fees is very

[8] Interim Report, page 32.
[9] Interim Report, page 33.

heterogeneous.[10] In practice, far from being a consequence of market power, differences in interchange fees are the result of a wide variety of factors peculiar to individual Member States. These factors include:

(a) **Levels of usage** – The use of credit and debit cards in individual Member States varies considerably. In some Member States, including the UK, card usage is relatively high, whereas in other Member States, including Poland, payments tend to be made using other forms of payment. Variations in customer preferences are also evident between different Member States – in Germany for example, there is a distinct preference for debit card rather than credit card use.

(b) **Tax regimes** – In the absence of the harmonization of tax regimes throughout the EU, payment card providers are subject to different tax regimes in each Member State in which they operate. Tax regimes have an impact on the profitability and commercial viability of activities, and therefore the level of interchange fee, in individual Member States.

(c) **Local laws** – The local laws of a Member State can have a significant impact on the cost of providing payment card services in a myriad of ways, and can have an impact on the general costs of a business (for example employing staff, running premises, and communications) and costs specific to the provision of payment card services (for example, the costs associated with prosecuting instances of fraud and funding requirements). This issue has remained relevant even with the increasing development of a European legislative framework, as Member States implement and enforce Directives in different ways.

(d) **Regulatory intervention** – The different regulatory regimes are a significant factor as regards the different costs of providing payment card services in individual Member States. For example, there are differences in the costs to issuers of meeting the different compliance standards that exist in Member States.

(e) **Accounting policies** – There is no uniform accounting process across the Member States, nor are there standard definitions of the various elements that

[10] Interim Report, page 31.

make up the payment flows required for payment cards to operate. This can have a significant impact on how certain costs are recognized and revenues measured, and therefore interchange fee levels between Member States are not necessarily directly comparable.

(f) **Risk levels** – The commercial risks associated with providing payment card services differ widely between Member States, particularly as regards the level of fraud occurring in certain Member States and different credit cycles. As criminals become more sophisticated, the industry has to adopt ever more advanced measures to prevent fraud and protect customers – these innovations, for example the introduction of chip and pin, are developed and introduced at no direct cost to cardholders.

(g) **Technology standards** – There is a lack of common technical standards across the EU (as regards, for example, terminals and software). In the absence of common technical standards, it is inevitable that the costs associated with issuing differ between Member States, which may be reflected in different interchange fee levels.

(h) **Scale** – The costs of providing payment card services can vary considerably depending on geography, demography and local infrastructure in each Member State.

28. Citibank, as a card issuer, would welcome steps to create a single market for payment cards in the EU that may lead to cost savings and greater competition. This would benefit cardholders, merchants and the wider economy. However, given the wide variations in underlying costs arising from the different conditions historically prevailing in the different Member States, a move to standardize interchange fees across Europe, or indeed any attempt to regulate interchange fees at a pan-EU level, without first breaking down national barriers and reducing the described differences between Member States, would have significant unintended and likely negative consequences:

(a) If interchange fees across the EU are reduced to a single rate at a level equal to the current lowest level, this could result in activities in those Member States where underlying costs are higher becoming less profitable or unprofitable. This in turn could result in an increase in cardholder fees, or the withdrawal of some providers from these Member States, and would reduce the incentives for new entry.

(b) If interchange fees are standardized at a level above the current lowest level, costs to merchants and acquirers would increase in those Member States where fees are lower due to the factors outlined above and the interchange fee would not be representative of the costs involved.

(c) If interchange fees are reduced, issuers would have to compensate for the loss of revenue. This could result in, for example, an increase in cardholder fees (as has occurred in Australia, see paragraph 28 below); a reduction in the level of services offered to, and benefits enjoyed by, cardholders; or reduced levels of innovation.

29. Citibank notes that, in Australia, cardholder benefit packages have been cut and cardholder fees have risen sharply as a result of interchange fee regulation imposed by the Reserve Bank of Australia in October 2003. As a result of this intervention, credit card acquirers have passed the lower fees entirely back to merchants that have benefited from lower discounts, although merchants have not reduced prices payable by consumers. This example suggests that regulatory intervention does not necessarily result in a better deal for consumers.

Interchange revenues are justified and necessary

30. Citibank is also of the view that the implication contained in the Interim Report that interchange revenues may be unjustified is not correct.[11] As described above, interchange fees are one of the revenue streams available to card issuers which fund this business, including the distinct costs of (for example) the processing of transactions, fraud protection, payment guarantees, and the funding of interest free periods. Interchange is an integral part of the payment cards market and has been present since the inception of payment cards.

[11] Interim Report, page ix.

31. Interchange fees are integral to the effective operation of payment associations. For every transaction using a credit or debit card, the issuer and acquirer effectively offer a joint service to merchants and cardholders. However, the costs and risks associated with providing this joint service mainly fall on the issuer, and it is therefore essential that some of the costs and risks incurred by issuers are shared with acquirers through interchange fees. Without interchange fees, issuers would be unable to obtain a satisfactory return that reflects the risks and costs involved in issuing credit and debit cards (see paragraph 11 *et seq* above).

32. The benefits of credit and debit cards to merchants and cardholders, and the wider economy, would be significantly impaired if interchange fees could not be charged, or if interchange fees did not reflect the costs and risks involved in issuing credit and debit cards. In particular, "honour all cards" rules (i.e. rules stating that, within any particular association, any card by any issuer can be used at any merchant acquired by any acquirer), which are integral to the effective operation of a payment association, would be jeopardised if changes were made to the way in which interchange fees are set.

33. In the absence of an appropriate fee structure, issuers would have to take steps to limit risk. Likely options in this context include having to limit the number of merchants accepted in small markets, which would lead to reduced sales in those markets, and a reduction or elimination in the benefits outlined above. It is therefore clear that interchange fees are essential to the effective operation of payment card associations and the provision of the benefits of credit and debit cards to merchants, cardholders, and the wider economy.

34. The example of Australia, where the regulatory authorities imposed price controls, does not suggest that consumers or the payment cards industry benefited from such changes. Consumer choice and benefits have been reduced and annual fees increased. The hope that consumers would benefit from cheaper prices has not been realised – instead merchants retained the savings.

CO-BRANDING

35. The Interim Report concludes that network rules prohibiting cooperative agreements between competing networks or other entities that do not operate in the financial services

sector (referred to in the Interim Report as co-branding), act as a barrier to entry by hindering: (a) domestic debit card payment systems from entering into competition with Visa or MasterCard; and (b) retailers or other operators from entering into competition with incumbent card issuers.[12]

36. Citibank notes that the ability of issuers to enter into agreements with entities that do not operate in the financial services sector ("**non-banks**") provides an effective means for smaller issuers to gain market share in individual Member States, and therefore maintain high levels of competition in the payment cards sector. As stated in the Interim Report, as regards co-branding with non-banks:

> "*it can be observed that co-branded cards are used as a vehicle for market entry by new issuers or for the competitive expansion of card issuing by existing issuers. In systems where such co-branding is prohibited this route towards more intense competition with the incumbent card issuers may be foreclosed.*"[13]

37. Citibank agrees with this conclusion, and considers that co-branding provides an essential competitive force. Co-branding allows new entrants or smaller players to use long-established and recognized brands in order to compete against more established financial institutions. Indeed, the significant number of co-branding agreements between issuers and non-banks demonstrates the high level of potential competition existing in this sector. Co-branding also brings additional benefits to cardholders, which are typically procured by the issuer – for example loyalty points. These additional benefits further promote the use of payment cards, and therefore lead to the growth of merchant sales.

38. Citibank would therefore be extremely concerned if any action were to be taken that distorted the incentives of both issuers and non-banks to enter into co-branding agreements – this would occur if, for example, interchange fees were artificially reduced.

CONCLUSION

39. Payment cards bring considerable advantages to cardholders, merchants and the wider economy.

[12] Interim Report, page vii and 122.
[13] Interim Report, page 122.

40. For the reasons set out at paragraph 27 *et seq* above, and in particular the fact that for historical reasons regulation has traditionally taken place at a national level, in 2006 there is no single market for payment cards in the EU. This state of affairs cannot be fairly attributed to acts or omissions on the part of players within the payment cards industry.

41. Citibank, as a pan-European card issuer, would welcome steps to break down barriers across these largely national markets that are currently subject to multifarious regulatory, tax and accounting regimes. A single market could lead to cost savings and greater benefits for consumers and merchants. However, given the wide variations in underlying costs arising from the different conditions historically prevailing in the different Member States, Citibank would caution against measures to standardize fees across Europe. Such extreme measures in isolation could have significant unintended and likely negative consequences.

42. Citibank is concerned that unnecessary changes to the structure of the market, or unnecessary additional regulation, could significantly damage the ability of new entrants to enter and expand in the market. Any such changes would impede the achievement of the Commission's Lisbon goals. In addition the wider benefits of credit and debit cards to cardholders, merchants and the wider economy, would be compromised if changes to the structure or regulation of the market had the unintended effect of limiting the scope for new entry or expansion.

43. Unnecessary changes to the structure or regulation of the market could also result in higher cardholder fees and a reduction in the benefits to cardholders and merchants currently provided by credit and debit cards. It is therefore important that any analysis of this sector takes into account the full range of benefits to all stakeholders, and the balance of regulation that achieves those benefits, in order to avoid making any unnecessary and undesirable changes.

44. Citibank, as an institution that operates across payment card markets in many Member States, would welcome the opportunity to work with the Commission to help ensure that this sector continues to thrive, generating the growth and innovation and even greater consumer benefits.