

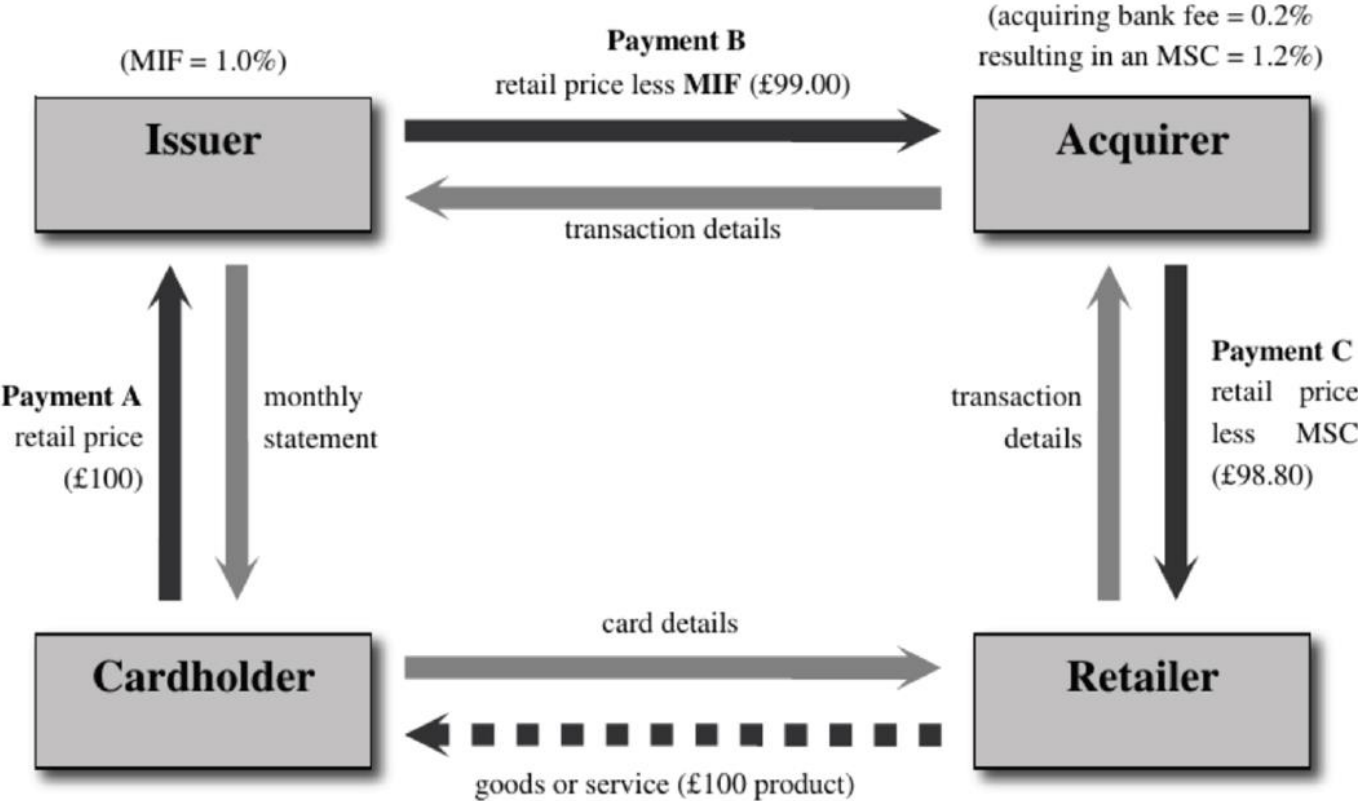
# Payment Services in the EU: Price Regulation to Protect a Duopoly

Paul Gilbert

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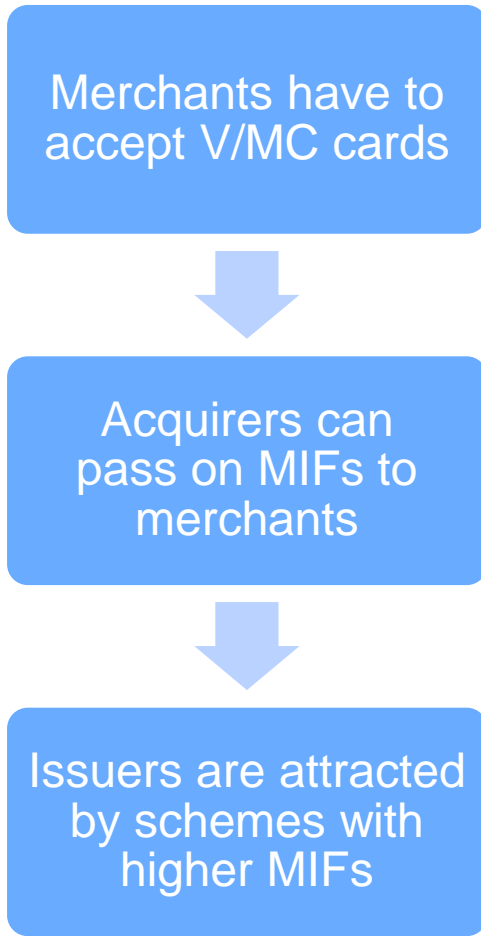


# The Problem: Competition Concerns with Four-Party MIFs



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# MIFs are Driven Higher in “Must-Have” Schemes



“Together with Visa, MasterCard’s issuing and acceptance networks are unique in the EEA. The economics of network industries such as payment cards imply that established incumbent networks benefit from a strong competitive advantage over any rival network. The size of MasterCard’s network is matched only by one other network, Visa.”

*European Commission, MasterCard I*

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# The Solution: Antitrust or Regulation?

- Antitrust enforcement resulted in caps on Visa and Mastercard MIFs.
- IFR adopted the caps at the same level (0.2% debit, 0.3% credit)
- IFR also introduced rules to tackle “*interchange fees flanking measures*”
  - Unblending
  - “Honour all cards” rules
  - Steering rules
  - PSD2 extended open access requirements to three-party schemes.

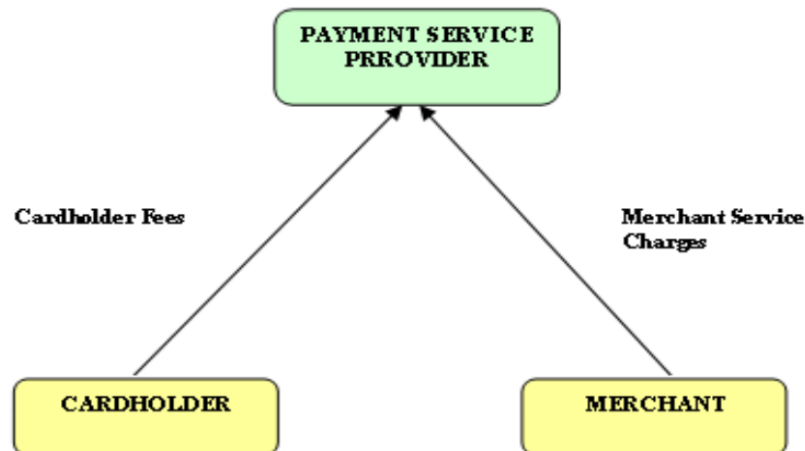
“The regulated area consists of all card transactions that are widely used by consumers and therefore difficult to refuse by retailers.”

*IFR Impact Assessment*

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# Implications beyond Visa and Mastercard

- The only realistic challenge to incumbent four-party schemes comes from differentiated business models.
- Three-party schemes provide competition without the concerns that led to the IFR.
  - No MIFs
  - Not a “must have” for merchants.
- A network of bilateral relationships is precisely the competitive counterfactual that the Commission applied in *MasterCard 1*.



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# Unintended Consequences

- The IFR treats all schemes as if there were essential facilities.
  - Caps on bilateral licences.
  - “Anti-flanking” rules.
  - Open access requirements.
- These rules hamper smaller schemes from expanding their reach and discourage innovative payment solutions funded by issuers.
- Less competition to Visa and Mastercard.
- No evidence of lower consumer prices.





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