

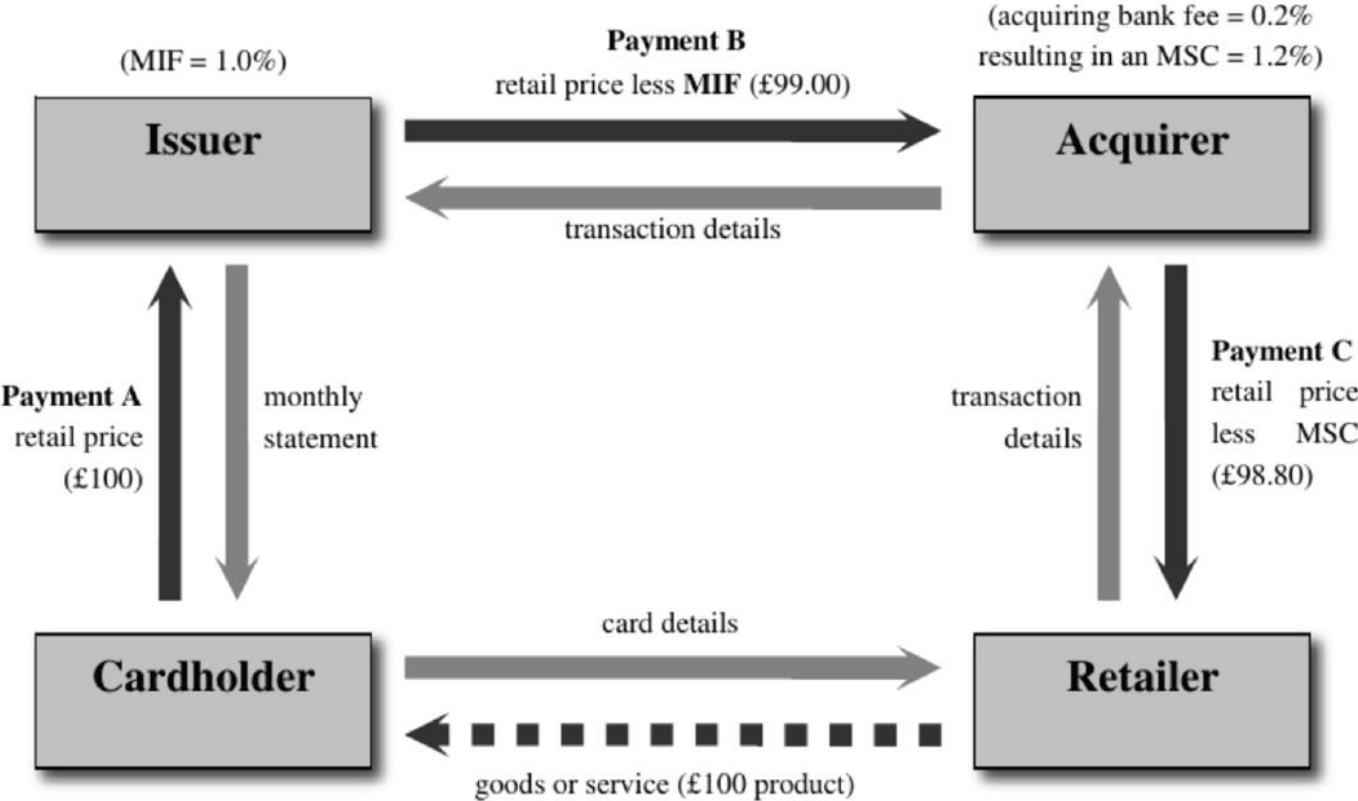
Payment Services in the EU: Price Regulation to Protect a Duopoly

Paul Gilbert

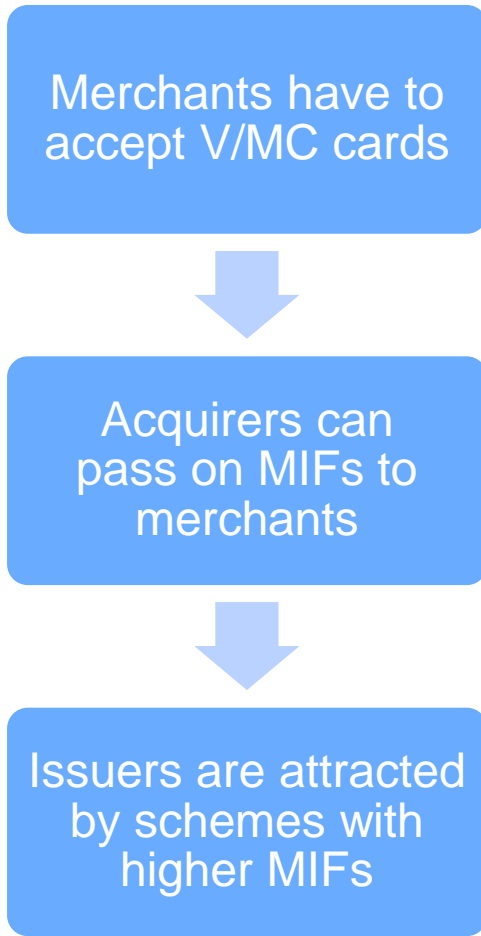
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The Problem: Competition Concerns with Four-Party MIFs



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

The Solution: Antitrust or Regulation?

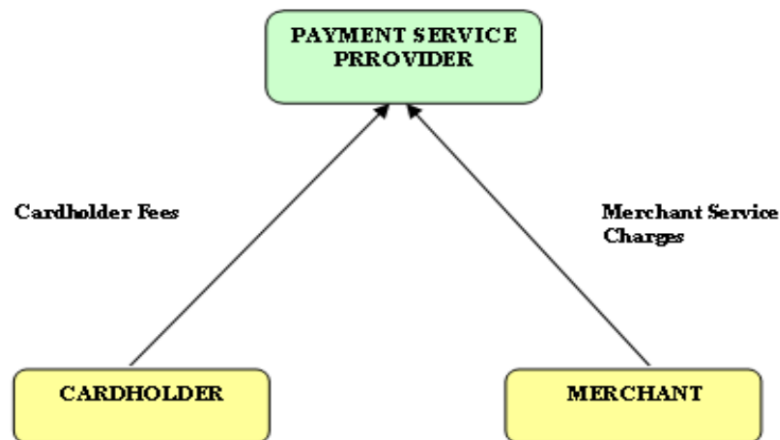
- Antitrust enforcement resulted in caps on Visa and Mastercard MIFs.
- IFR adopted the caps at the same level (0.2% debit, 0.3% credit).
- IFR also introduced rules to tackle “*interchange fees flanking measures*”
 - Unblending
 - “Honour all cards” rules
 - Steering rules
 - PSD2 extended open access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

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

IFR Impact Assessment

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*.



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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