



Australian Restaurant & Cafe Association Ltd. (ARCA)

ARCA Submission to the House of Representatives Standing Committee

29 January 2026

The Australian Restaurant & Cafe Association Ltd. (ARCA) is a member based not-for-profit Industry Association and is the strongest voice for the Restaurant & Cafe segment of the Accommodation & Foodservice Industry, representing a sector that employs 700,000 across over 56,000+ restaurants & cafes in Australia. Our members include many of the leading restaurants & cafes in Australia, which employ tens of thousands within the Restaurant & Cafe segment. The majority of the industry is considered small businesses with 99% of restaurants and cafes earning less than \$10 million in annual revenue and 91.4% earning less than \$2 million, according to the Australian Bureau of Statistics (ABS).

Introductory statement

This submission outlines ARCA's views on the fairness, accessibility, and competitiveness of Australia's payments system as it affects hospitality small and medium-sized businesses. It focuses on the need for transparent, cost-reflective pricing and effective competition in card-based payments, while reducing underlying wholesale payment costs that disproportionately affect hospitality venues.

1. Overview and context for hospitality

ARCA welcomes the Standing Committee's inquiry into the fairness, accessibility, and competitiveness of Australia's payments system. Australia's hospitality sector is a high-volume, low-ticket, low-margin part of the economy. Payments settings materially affect the viability of local cafés, restaurants, pubs, clubs and similar venues, particularly small and medium-sized enterprises (SMEs) with limited bargaining power and limited capacity to absorb step-changes in the cost of acceptance.

Recent indicators underscore how tight conditions are. CreditorWatch reported a cafes and restaurants closure rate of 10.6 per cent in the year to November 2025, compared with a national average of 5.4 per cent.(1) At the same time, broader cost pressures remain elevated, with the CPI rising 3.8 per cent over the year to the December 2025 quarter.(2) In this environment, payment cost shocks are not absorbed "in the margin". They translate into higher menu prices, reduced staffing levels, shorter trading hours, or business closure. A central theme for hospitality is that card acceptance costs are not a universal overhead like rent, electricity, or water. They vary materially by the customer's choice of payment method (for example, premium credit versus debit) and payment channel (card-present versus card-not-present). The policy objective should be a fair "user choice, user pays" model that preserves transparency and prevents low-cost users from subsidising higher-cost payment choices.

2. Summary of key recommendations

ARCA recommends the Committee support the following positions for hospitality SMEs:

- Preserve the ability for cost-based surcharging (capped at a merchant's cost of acceptance) as an important price signal and fairness mechanism.
- Reduce and contain the underlying wholesale costs (interchange and scheme fees) that drive acceptance costs, and ensure reductions are not offset by increases in opaque scheme and processing fees.

- Require stronger transparency of scheme fees and fee schedules, including standardised reporting and meaningful segmentation by card type, scheme, and payment channel.
- Strengthen routing and competition tools, including default-on least-cost routing.
- Require schemes to offer a mandated hospitality and SME reduced-fee program (strategic-rate equivalent), with transparent eligibility criteria and protections against fee offsets elsewhere.

3. Card-based payment schemes and digital wallets: fairness and accessibility

3(a) Lack of transparency and rising scheme fees increase costs for hospitality SMEs

Hospitality merchants experience “all-in” merchant service fees, but a key driver of those fees is wholesale scheme costs, including interchange and scheme fees. The Reserve Bank’s recent review notes the complexity and opacity of scheme fees, including the large number of fee categories, a lack of standardisation across networks, and the operational difficulty of applying correct scheme fees in real time.(3)

The same review records that scheme fee hierarchy documents can be extremely complex and can be as long as 800 pages.(3) It also notes that international schemes have refused to give the RBA permission to publish network-level scheme fee information, limiting transparency.(3)

ARCA recommends the Committee support:

- Standardised publication of aggregate wholesale fee data, segmented by card type, scheme, domestic versus international, and card-present versus card-not-present.
- Simplification of fee schedules and a standardised taxonomy (for example, mandatory versus optional fees) to enable meaningful comparability.
- Guardrails or escalation mechanisms on scheme fee growth where increases materially exceed transaction values or inflation without clear justification.

International experience is instructive. The UK Payment Systems Regulator has reported that Mastercard and Visa scheme and processing fees rose by at least 25 per cent since 2017, adding around GBP 170 million per year in costs, with smaller merchants less able to negotiate those fees.(4) This experience demonstrates that transparency alone is insufficient without enforceable constraints on fee growth.

3(b) Current pricing structures disadvantage hospitality SMEs

Hospitality SMEs face structurally higher payment costs due to scale-based wholesale pricing and limited bargaining power.

Hospitality SMEs face two related inequities:

Wholesale pricing structures that favour scale

The RBA identifies a persistent gap between interchange paid by large “strategic” merchants and smaller merchants, who can effectively cross-subsidise larger merchants through higher interchange outcomes.(5) Published card scheme schedules illustrate this disparity. For example, Visa’s domestic credit interchange includes a “Strategic Merchants Program rate 1” of 0.21 per cent, compared with 0.67 per cent for Premium and 0.77 per cent for Super Premium (Visa Signature).(6)

Customer choice variability and cross-subsidisation if cost recovery is restricted

Acceptance costs in hospitality vary materially depending on the customer’s card type and purchase channel. This differs fundamentally from universal overheads such as rent or utilities.

If cost-based surcharging is prohibited, those variable costs do not disappear. Instead, they are averaged into higher menu prices paid by all customers, including those using low-cost

debit or cash. This removes the transparent signal that higher-cost payment choices impose higher costs on the venue.

In practice, hospitality pricing tends to move in discrete increments, such as five or ten cents. Embedding acceptance costs into menu prices can therefore result in price increases that exceed the underlying per-transaction cost and apply regardless of payment method.

For these reasons, ARCA supports retaining cost-based surcharging, capped at a merchant's cost of acceptance and clearly disclosed, as a targeted mechanism to avoid cross-subsidisation and preserve pricing transparency.

If policymakers wish to reduce reliance on surcharging, the most effective first step is to reduce underlying wholesale costs and ensure genuine pass-through to SMEs, rather than removing the cost-recovery mechanism.

Recommendation: mandated reduced-fee programs for hospitality SMEs

ARCA recommends that card schemes be required to offer reduced wholesale fee programs for hospitality and small-business merchants, comparable in concept to strategic programs available to large merchants. This would improve equity and competitive neutrality by better reflecting high transaction intensity and limited bargaining power.

3(c) Consolidated market power, choice, and access to alternatives

Hospitality businesses operate in a "must-take" acceptance environment. Major international schemes have significant market power, and digital wallets can reinforce that power by influencing transaction presentation, tokenisation, and routing.

The Committee should therefore treat digital wallet and scheme market power as directly relevant to competition and accessibility in the payments system.

ARCA recommends that:

- Payment system regulation apply to mobile wallet providers where conduct affects competition, pricing transparency, or merchant choice.
- Wallet-enabled payments do not reduce merchants' ability to benefit from routing competition, including debit least-cost routing.

4. New and emerging payment technologies

4(a) Digital currency and blockchain

ARCA supports continued monitoring of digital currency and blockchain developments.

However, hospitality priorities remain reliability, low cost, simple reconciliation, and consumer familiarity. For most SMEs, near-term reform should focus on improving competition and affordability in mainstream payments.

4(b) Account-to-account payments

Account-to-account payments can materially improve competition and reduce acceptance costs, provided they offer strong consumer protections, high availability, fast checkout times, and simple dispute handling appropriate for hospitality. High-volume, low-ticket environments require tap-speed experiences and minimal operational friction.

4(c) Increasing competition and reducing fees

Durable fee reductions require:

- Lower and better-contained wholesale costs, including safeguards against fee drift through opaque pricing.
- Stronger routing tools, including default-on least-cost routing and pathways to dynamic and online routing.

Recent domestic debit initiatives illustrate the potential benefits of such approaches.

Australian Payments Plus notes interchange reductions for eligible small businesses, including reductions to 2 cents for card-present and 3 cents for online transactions from 1 December 2024.⁽⁷⁾ Consistency of effective low-cost options across schemes and channels remains critical for hospitality.

4(d) Implementation sequencing

Implementation sequencing is critical. If cost-recovery mechanisms such as surcharging are constrained before wholesale costs are reduced and stabilised, SMEs are exposed to unavoidable cost increases that cannot be transparently attributed to customer payment choices.

Reforms should therefore prioritise reducing underlying costs first and preventing re-inflation through opaque fees.

5. Conclusion

For hospitality SMEs, the payments system must be fair, transparent, and competitive. Cost-based surcharging, capped at a merchant's cost of acceptance and clearly disclosed, remains an important fairness mechanism that prevents cross-subsidisation and preserves transparent pricing signals.

Policy reform should focus on reducing wholesale cost drivers, improving scheme fee transparency and comparability, strengthening routing competition, and ensuring that the market power of card schemes and digital wallets does not restrict merchant choice.

Sincerely

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References

- (1) CreditorWatch, reporting cafés and restaurants closure rates (10.6 per cent in the year to November 2025; national average 5.4 per cent).
- (2) Australian Bureau of Statistics, CPI annual movement 3.8 per cent to the December 2025 quarter.
- (3) Reserve Bank of Australia, *Review of Merchant Card Payment Costs and Surcharging: Consultation Paper* (15 July 2025), discussion of surcharging framework history and cost-based limits, and observation that small merchants increasingly use single-rate plans.
- (4) UK Payment Systems Regulator, final report on scheme and processing fees (noting fee increases of at least 25 per cent since 2017, and associated cost impacts including around GBP 170 million per year).
- (5) Reserve Bank of Australia, *Review of Merchant Card Payment Costs and Surcharging: Consultation Paper* (15 July 2025), noting differences in interchange faced by large versus smaller merchants and related cross-subsidisation concerns.
- (6) Visa, published Australian domestic credit interchange schedule (example categories: Strategic Merchants Program rate 1 at 0.21 per cent; Premium 0.67 per cent; Super Premium (Visa Signature) 0.77 per cent).
- (7) Australian Payments Plus, submission to the RBA Issues Paper, describing reductions in eftpos interchange for eligible small business merchants (2 cents card-present; 3 cents online; effective 1 December 2024).