Position Paper

7 April 2025

Digital euro compensation model not needed and contradicts proposed regulation

ʻA euro is a euro' applies to consumers <u>and</u> merchants

Key messages

1. **No compensation model needed**: the digital euro and cash are **public goods**, using them should be at **no cost to consumers and merchants**.
2. A compensation model makes the digital euro **more complex and costly than needed**.
3. If nevertheless a compensation model is decided, the **Merchant Service Charge must be 0,05% with a cap of 2 cent per transaction**.
4. A higher Merchant Service Charge will **jeopardise adoption by merchants** and will lead to **higher consumer prices and less competition and innovation**.
5. Also, the **recommendations** of the European Court of Auditors (ECA) **Special Report**[1] on price interventions must be **applied** to the digital euro compensation model.

Merchants recognise the **potential**[2] of the digital euro to **reduce the average cost of payments**, which has only gone up in recent years, and to **boost competition and innovation**. However, this potential can only be realised if the cost of acceptance is kept **at zero** or **as close to zero as possible** and the **existing infrastructure can be reused**.

The current direction of the conversation on the digital euro compensation model is alarming, as it **harms the European economy**, makes the digital euro **unnecessarily complex and expensive** and is **not in line with the core concept of legal tender as defined in the proposed legislation**.

The co-legislators to carefully consider our position for a compensation model in the regulation to enable a digital euro

Relevant articles of the legislative proposal[3]:

(**Bold** added by EuroCommerce to emphasise key words)

- Article 7.2: The legal tender status of the digital euro shall entail its mandatory acceptance, **at full face value**, with the power to discharge from a payment obligation.

[1] Special report 01/2025: Digital payments in the EU | European Court of Auditors

[2] Digital Euro: Merchants support a fast, innovative, and low-cost pan-European payment method - EuroCommerce

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC0369

- Article 7.4: In accordance with the acceptance at full face value of the digital euro, the monetary value of digital euro tendered in payment of a debt shall be equal to the value of the monetary debt. **Surcharges on the payment of debt with the digital euro shall be prohibited**.
- Article 17.1: For the purpose of Article 15(2), without prejudice to any possible fees charged on other digital euro payment services, **payment services providers shall not charge fees to natural persons** as referred to in Article 13(1), points (a), (b) and (c), for the provision of the basic digital euro payment services referred to in Annex 2.
- Article 17.2: For the purpose of Article 15(2), any merchant service charge or inter-PSP fee in relation to digital euro payment transactions shall **comply with the principle of proportionality**. Any merchant service charge or inter-PSP[4] fee **shall not exceed the lowest of the following two amounts**:
  (a) the relevant costs incurred by payment services providers for the provision of digital euro payments, including a reasonable margin of profit;
  (b) fees or charges requested for comparable digital means of payment.

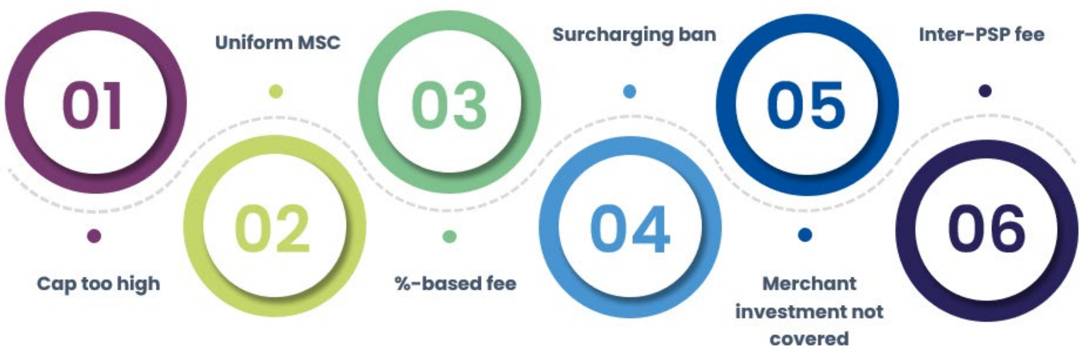
Our issues with these articles:

1. In our view, the 'acceptance at full face value' **must also apply to merchants**. This means merchants must receive the **full amount with no discount** due to a merchant service charge (MSC). As the Eurosystem repeatedly says: '**a euro is a euro is a euro**'. Why should that not apply to merchants as well?

2. In our view, the 'prohibition for PSPs to charge fees to natural persons' only leads to **hiding costs that will have to be covered elsewhere**, namely in PSP or merchant costs that **will eventually end up in consumer prices** therefore again not meeting the 'full face value' requirement. The same applies to the surcharging ban that makes acceptance cost intransparent to consumers.

3. The ECA special report recommends the European Commission establish **clear criteria to assess price interventions**. As far as we know, this has not been done for a) no fees/costs for consumers, b) surcharging ban and c) merchant fees.

Our issues with the proposed compensation model



Should a decision be made to adopt a compensation model despite our objections outlined above, merchants have significant concerns with the proposals currently circulating within EU institutions.

[4] Payment Service Provider

1) **Merchant Service Charge (MSC) caps too high**
   a) Comparable payment means must be (instant) **SEPA[5] credit transfers** (SCT (Inst)) at Point of Interaction (POI), not (domestic) debit cards. The digital euro is closer to SCT than cards and most likely **will use the same or similar 'rails'**. Credit products, such as credit/charge cards or Buy Now Pay Later must never be part of the comparison, as the **digital euro will not offer credit** but will settle instantly.
   b) **A cap must be set at 50%** of comparable payment means. Due to its 'public good' nature and mandatory acceptance, the digital euro is a different animal than private payment means and should be priced accordingly as there are no scheme or processing fees nor any counterparty risk.
   c) A cap must be **treated as a maximum** and not as a target. In the experience of merchants, PSPs use cards interchange caps to the full in most member states, with notable exceptions in Ireland, Belgium, Spain and The Netherlands.

2) **Uniform MSC not possible if cap too high**
   a) Currently there are **significant differences in cos**t of accepting domestic debit cards and SCTs between member states.
   b) Some member states have **interchange fees for debit cards as low as 2 cents per transaction** (The Netherlands) or a **capped %-based fee that is much lower than the proposed 0,2%**, for example in Ireland, Belgium and Spain.
   c) If the MSC cap is too high, member states that have **lower MSCs than that will suffer from higher fees for the digital euro** because there will be one uniform MSC in the entire euro area.

3) **%-based MSC should be fee per transaction**
   a) %-based MSCs prevent merchants from enjoying **economies of scale** (network effects) due to higher volume/value of transactions.
   b) **Only PSPs benefit from %-based MSCs,** which they say they (also) need to cover the counterparty risk.
   c) With the digital euro, PSPs will have **no counterparty risk** as digital euro holdings are the Eurosystem's liability and **no money is transferred between bank/card accounts**.
   d) The PSP's cost of moving 1 digital euro or 1000 digital euro through the system is therefore the same so the **same fee should be applied regardless of transaction amount.**

4) **Surcharging ban should be removed**
   a) Currently most consumers think that **payments are for free** and are unaware that they have a choice.
   b) The **right to surcharge** – even if merchants choose to not apply it – give merchants a **better negotiating position**. Surcharging bans have a price-increasing and competition-limiting effect.
   c) With surcharging, merchants have an essential tool to enable consumers to make an informed choice and **influence them to use the digital euro for payments**.
   d) With a surcharging ban in place, merchants will be **almost unable to promote the digital euro towards consumers** and it removes an incentive for PSPs to **innovate and keep their offer competitive.**

5) **Merchant investment not covered**
   a) Merchants will incur both **investment and operational costs** for accepting the digital euro, aside from any fees. Terminals and web shop check-out pages will have to be

[5] Single Euro Payments Area

updated/upgraded and maintained, integrations and internal processes must be implemented, and employees must be trained.

b) It i**s essential and fair to compensate merchants for these costs**, particularly as the digital euro must be accepted by merchants due to its legal tender status.

6) Inter-PSP fee not needed

a) Merchants see **no need for an inter-PSP fee** as there is no counterparty risk. Successful schemes such as UPI in India or Pix in Brazil function well without an inter-PSP fee. In Europe, EPI Company does not apply them either for their 'wero' scheme.

b) For **cash**, like the digital euro a public good, there is **no inter-PSP fee** either.

c) PSPs must 'only' **manage their customers' digital euro wallets** and perform transactions and bear **no counterparty risk**.

d) An Inter-PSP fee makes the digital euro scheme **unnecessarily complex and costly** as compensation fees will have to flow from accepting intermediaries to issuing intermediaries, replicating **relatively expensive cards-based 4-party models**.

e) **For SCT (Inst)**, the most comparable payment means for the digital euro, there is **no inter-PSP fee either**.

f) PSPs should build **creative and innovative value-added services** on the digital euro and their wider product portfolio to **generate income** to cover the costs of managing digital euro wallets and transactions instead of an inter-PSP fee.

Way forward

- A compensation model for the digital euro is not needed. After all, the digital euro is **simply a digital form of cash**. And for **cash there is no compensation model** either.
- Having a compensation model for the digital euro makes it **unnecessarily complex and costly** to implement and maintain all those money flows.
- A compensation model **contradicts the essence of 'legal tender'**, which guarantees **'full face value' for** both payer and payee.
- If a compensation model for the digital euro is decided, despite our reasoning against it and contrary to the digital euro 'full face value' premise, and merchants will be charged a MSC, the **MSC must be 0,05% with a cap of 2 cent per transaction**.
- Any rate above this threshold would undermine merchant adoption and interest in the digital euro. It will lead to higher consumer prices and **jeopardise the potential of the digital euro to foster competition, lower average payment costs and support a more efficient European payments market**.

Contact:
Atze Faas | Payments Adviser, faas@eurocommerce.eu

EuroCommerce is the principal European organisation representing the retail and wholesale sector. It embraces national associations in 28 countries and 5 million companies, including leading global players and many small businesses. Over a billion times a day, retailers and wholesalers distribute goods and provide an essential service to millions of businesses and individual customers. The sector generates 1 in 7 jobs, offering a varied career to 26 million Europeans, many of them young people. It also supports millions of further jobs throughout the supply chain, from small local suppliers to international businesses. EuroCommerce is the recognised European social partner for the retail and wholesale sector.