



Paul A. Allen
Executive Vice President
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Letters to the Editor
The Wall Street Journal
200 Liberty Street
New York, NY 10281

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Dear Editor:

The May 23 op-ed piece, "Let A Thousand Credit Cards Bloom," incorrectly states the issue regarding whether Visa should be required to permit Discover, a major brand competitor, to issue a Visa card. Would a Visa card offered by Dean Witter-owned Discover make for a more competitive credit card industry benefiting consumers? The answer is no, and we are surprised that the author, a consumerist, doesn't understand this aspect as it has tremendous consumer implications.

Visa has refused to permit a corporate affiliate of one of its brand competitors and the largest issuer in the country, Discover, to issue Visa cards. Would Discover, in turn, permit Visa to issue Discover cards? Would McDonald's permit Burger King to sell Big Macs? Of course not.

Dean Witter's assertion is as baseless now as it was four years ago when Dean Witter first launched its audacious attempt to get the courts (a jury decision in Utah favoring Discover was overturned by the U.S. District Court in Denver last fall), and failing that, the U.S. Congress, to order Visa to license its products and technology to a competitor, an action virtually without precedent in the history of U.S. commerce or law. Indeed, the Utah trial judge mused, "To this moment, I don't see how a company [this size] has to resort to our antitrust laws to obtain the property of a joint venture, or a single company or anyone else, when they have shown their ability, impressively so, to be successful and viable and very profitable in this very arena."

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The opinion piece also incorrectly states that the credit card market is not competitive. But as any mail carrier can attest, consumers are flooded with card solicitations from hundreds of credit card issuers who offer a wide array of card programs with different features, prices and benefits. Consumers are free to select from a smorgasbord of interest rates, no annual fees, airline miles and product rebates. Visa does not place restrictions on how its 6,000 card issuers price their products. Clearly, more than a thousand credit cards already have bloomed. And virtually every economist who has studied the payment card industry, including those at the Federal Reserve Board and the U.S. Department of Justice, characterize it as one of the most competitive in America.

Proponents of Dean Witter claim that the company would shake up the credit card market - but only if it could issue Visa cards as well as its own Discover brand. Dean Witter's behavior suggests otherwise. Discover was one of the last big issuers to reduce interest rates in the early 1990s, a leisurely pace Discover's chief executive officer at trial attributed to a need to revamp computer systems. For a time, Discover was virtually the only major issuer to utilize costly two cycle billing and daily compounding of interest. During the jury trial in this case two and a half years ago, Discover was one of the highest priced (and most profitable cards) in the business; moreover, it conceded that it was forced to lower the price of its proposed Prime Option Visa card twice in response to the market; and an unpaid industry expert, Robert McKinley of RAM Research, testified that consumers had access to many cards that were more favorably priced than those offered by Dean Witter.

Furthermore, Dean Witter's own internal documents revealed that it preferred to issue a low price Visa card because a lower priced Discover card would cannibalize its own expensive offering. And other evidence suggested that Dean Witter sought entry to Visa in order to gain access to confidential information and to blunt Visa's competitive vitality. This is not the fabric from which one can successfully weave a consumerist flag.

Finally, there is the matter of competition between payment card systems. There are only four general purpose payment card brands: Visa, MasterCard, Discover and American Express. Consumers concerned with competition would not benefit from a merger leading to monopoly by forcing Visa to admit Discover and American Express. That would lead to less consumer choice, less price competition and less innovation in global payment systems. Are consumers better off with four card brands and 6,000 Visa card issuers, or three (or less) brands and 6,001 issuers? We believe the answer is clear.

The U.S. Court of Appeals got it right last fall. It required Dean Witter to prove harm to consumers and not just its own corporate marketing plans. When Dean Witter could not, the court properly found for Visa. Consumers are better served by Visa, American Express and Discover vigorously competing for customer loyalty rather than merging product lines. As the Utah trial judge found, "the court does not see the proposed Prime Option card as the low-cost boon to consumers that it is touted to be," and "the harm to competition from letting [Discover] into the Visa system is greater than any harm from keeping [it] out."

Sincerely,



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