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A SOUGHT-AFTER VISA FOR ENTERING CHINA'S ELECTRONIC PAYMENT MARKET AND STRATEGIES BEYOND

The Chinese government is giving China UnionPay a monopoly over most credit and debit card transactions by Chinese consumers. China's actions unfairly deprive US credit and debit card companies of access to a huge market.

- Ron Kirk, US Trade Representative¹

In 1993, Visa Inc (“Visa”) established its first office on the Chinese mainland in Beijing. However, its share of the number of financial cards in China remained low, in the single digits, because foreign companies, including Visa, were not allowed to process card transactions denominated in local currency. China UnionPay Company Limited (“CUP”) was the only local electronic payment services (“EPS”) provider that operated an inter-bank card-processing network in the country, except the cities of Hong Kong and Macau.² From 2002, Visa partnered with CUP in offering co-branded Visa-UnionPay cards for local customers. Visa processed non-Rmb-denominated transactions for these cards, while CUP processed Rmb-denominated ones. Their relationship turned sour in 2007 when CUP established its own payment network outside the Chinese mainland, directly competing with Visa for transactions denominated in foreign currencies. Moreover, China kept its EPS market for local currency closed to foreign companies, contrary to its commitment to allow full access to its financial market before the end of 2006, made when joining the World Trade Organization (“WTO”) in 2001. In September 2010, the United States filed a complaint with the WTO regarding this trade barrier. Meanwhile, CUP’s rapid global expansion posed a serious threat to Visa. It surpassed Visa as the largest EPS provider worldwide in 2010 in terms of number of financial cards. In February 2012, Visa’s management was trying to figure out what strategies it should pursue to win against CUP, both in China and in the international markets.

¹ Anderlini, J. (16 September 2010) “Visa Blocked in China after UnionPay Dispute”, *Financial Times*.

² Hong Kong and Macau were two southern cities classified as special administrative regions of China. Hong Kong was formerly a British colony handed over to China in 1997. Macau was formerly a Portuguese colony handed over to China in 1999.

Penelope Chan prepared this case under the supervision of Professor Zhigang Tao and Professor Shang-Jin Wei for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

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WTO's Dispute Resolution System

Established in 1995, the WTO played the roles of reducing international trade barriers and settling trade disputes among its member governments. Its history could be traced back to the General Agreements on Tariffs and Trade ("GATT") signed among 44 allied nations in 1947. Since then, a series of negotiations had been conducted among its members on tariff reduction, non-tariff trade barriers, international investment and protection of intellectual property. In the final session of the Uruguay round of negotiation held in July 1994, over 120 countries agreed to set up a dispute resolution system and create a new organisation, the WTO, to oversee the forthcoming negotiations and handle trade disputes. The scope of agreements also expanded from the GATT to include the General Agreement on Trade in Services ("GATS"), Trade-Related Aspects of Intellectual Property Rights, Trade-Related Investment Measures and some sector-level agreements. As of February 2011, the WTO had 153 members.³

Initiating a WTO Case

It was important to note that the WTO did not take cases from individuals, an individual company or a group of companies. Only the WTO's member governments were entitled to initiate dispute settlement proceedings, but not regional or local governments. Besides those member governments directly involved in a dispute, other member governments could participate as third parties. Under this system, the only way for a company to utilise the WTO dispute settlement mechanism for a trade dispute against a foreign government was to **lobby its own government to take a case to the WTO**. A US company, such as Visa, had to persuade the United States Trade Representative Office ("USTR") for this purpose. However, the **USTR only considered cases that had industry-wide implications** and that, in its view, had a strong legal basis. To increase the chance of success, a company with high stakes in a dispute often collaborated with other industry players in lobbying the USTR. Another consideration was that a US company had to commit extensive resources in preparing for a case, and the legal fees for hiring specialised third-party trade lawyers alone might cost millions of US dollars. Therefore, only big corporations with deep pockets could afford to use the WTO channel.

Legal Basis of a Dispute and Types of Complaints

The legal basis of a dispute had to be founded in the agreements that covered the rights and obligations of WTO members.⁴ For example, articles XVI and XVII of GATS covered the rights and obligations for market access and national treatment, respectively [see **Exhibit 1**]. Moreover, since 1995, before a new member joined the WTO, all WTO members had to agree to the terms of accession through a series of negotiations. **The member-to-be had to make commitments to open its market and to abide by the WTO rules**. These terms and the timeline of fulfilling its commitments were detailed in two documents as the outcomes of negotiations: the new member's protocol of accession and services schedule.⁵ If such terms and/or timeline were deemed to be violated after accession, other members could file a WTO case against the member in question.

Articles XXII and XXIII of GATT 1994 were provisions covering "consultation and dispute settlement" for this agreement. The related provisions for other agreements simply referred to these articles or were drafted using them as a model. These provisions allowed for three types

³ World Trade Organization, "Members and Observers", http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (accessed 7 March 2012).

⁴ World Trade Organization (November 2003) "Legal Basis for a Dispute", http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c4s1p1_e.htm (accessed 28 February 2012).

⁵ World Trade Organization, "Membership, Alliances and Bureaucracy", http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm (accessed 28 February 2012).

of complaints: violation, non-violation and situation complaints. Almost all complaints were violation complaints, which required nullification or impairment of a benefit as a result of the failure of another member to carry out its obligations under GATT 1994. A non-violation complaint was used to challenge any measure applied by another member, even if it did not conflict with GATT 1994, provided that it resulted in nullification or impairment of a benefit. For example, a case could be filed against a country that had agreed to reduce its tariff on a product in a multilateral market access deal, but later subsidised domestic production to nullify the agreement's effect on the conditions of competition. A situation complaint could cover any situation whatsoever, as long as it resulted in nullification or impairment. There were only a few cases of non-violation complaints in the past, and no situation complaint had been filed since the WTO was founded in 1995.

Principles of Decision Making

The WTO's Dispute Settlement Body ("DSB") oversaw the entire dispute settlement process. It had to establish panels, adopt panel reports and appellate reports, implement rulings and recommendations, and authorise the suspension of obligations under the covered agreements. The DSB was composed of representatives of all WTO members. In general, decisions were made by consensus. A member that wanted to block a decision had to raise its flag and voice opposition at the meeting. However, in three key stages in the dispute settlement process, ie, the establishment of panels, the adoption of reports and the authorisation of retaliation, the DSB followed the rule of "negative" or "reverse" consensus, which meant the DSB would automatically decide to take the action ahead unless there was a consensus not to do so. No single member government could block the process.⁶

Dispute Procedures and Timeline

To initiate a dispute resolution case, the complainant had to submit a written request for consultations with the member(s) concerned to the DSB [see Exhibit 2]. This written request included a brief description of the issues involved and the legal basis for the complaint. In case the parties failed to resolve their conflicts within 60 days of consultations, the complainant could request adjudication by a panel. The panel was normally composed of three, and exceptionally five, panellists.⁷ They were nominated on an ad hoc basis for each individual dispute out of an existing pool of candidates, which had nine people as of early 2012. The panel would examine the case, conduct oral hearings and compile a panel report to the members involved and to the DSB. The complainant might request to suspend the panel's work at any time to allow arbitration and conciliation for a maximum period of 12 months, beyond which the dispute settlement proceedings would have to be started all over again. The panel report contained the panellists' findings, conclusions and recommendations for settling the dispute. The target period from the establishment of a panel to the circulation of a panel report to the members was not meant to exceed nine months. But in practice it took an average of 12 months.⁸ If a party notified the DSB of its decision to appeal, the DSB would only adopt the panel report after the completion of the appeal, which could take up to three months.

Caveats

In the past, the WTO's dispute resolution system had proved to be effective in resolving many trade disputes among its member governments. However, in some cases, the parties that lost

⁶ For more information, see: World Trade Organization (November 2003) "WTO Bodies Involved in the Dispute Settlement Process", http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c3s1p1_e.htm (accessed 28 February 2012).

⁷ World Trade Organization (November 2003) "Panels", http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c3s3p1_e.htm (accessed 28 February 2012).

⁸ World Trade Organization (November 2003) "The Process—Stages in a Typical WTO Dispute Settlement Case", http://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c6s1p1_e.htm (accessed 28 February 2012).

in the WTO rulings, either as complainants or respondents, might retaliate in various ways. For example, in September 2009, the **United States imposed a 35% tariff on tires imported from China** because the value of such imports nearly tripled to US\$1.8 billion between 2004 and 2008.⁹ Its action was justified by a safeguard provision in the 1999 bilateral agreement between the two countries for China's WTO accession, which allowed the United States to levy a tariff to counter a surge of imports. In response, China filed a WTO complaint against the United States, but the WTO panel ruled in favour of the latter in December 2010. China's appeal was also turned down in September 2011. Then, three months later, China announced that it would levy antidumping and countervailing duties on certain automobiles from the United States. Li Zhongzhou, a former official of China's Ministry of Commerce, commented: "China should strike back in its own good time as the US always stirs up investigations targeting China by routinely using trade remedy measures."¹⁰

To reduce the chance of retaliation, some countries collaborated with their allies in resolving multilateral trade disputes with another member government(s). For example, on 13 March 2012, the United States, the European Union and Japan requested consultations with China for its restrictions on the export of rare earths, tungsten and molybdenum. Two weeks later, Canada also requested to join the consultations with China.

China's Accession to the WTO

In December 2001, China acceded to the WTO. In doing so, it had agreed to a mandated timeline to open its market to foreign companies in various sectors. For example, in the financial market, non-bank financial companies could offer auto financing upon accession. Foreign banks would be allowed to start conducting business in the local currency with Chinese enterprises two years after accession, and with Chinese individuals five years after accession. China had also committed to full market access by foreign banks by the end of 2006 [see **Exhibits 3A** and **3B**]. However, a decade later, many foreign companies vying for a share of China's lucrative market were disappointed at the outcome. Even though China had opened certain market areas, the government sometimes introduced **regulatory or administrative measures** to limit foreign players to single-digit market shares, such as in the **banking and insurance sectors**. This resulted in a **number of WTO disputes against China**. Some analysts said the root cause was that China typically complied more with the letter rather than the spirit of the WTO rules.¹¹

Industry Overview of Electronic Payment Services

EPS referred to the provision of payment solutions to settle transactions between buyers and sellers through digital means. Buyers could pay for goods and services using financial cards or electronic money. The merchants might be brick-and-mortar stores, mail-order companies or online e-businesses. They first verified a buyer's identification by sending a payment request to the EPS provider at the point-of-sale ("POS") transaction terminal. If the transaction was confirmed, the EPS provider would settle the related payment with the banks of the two parties [see **Exhibit 4**]. EPS providers generated income by charging the cardholders, merchants and/or card-issuing banks a fee for their services, either as a percentage of the transaction value or a fixed cost per transaction.

⁹ Williamson, E. and Barkley, T. (13 December 2010) "U.S. Beats China in Tire Fight", *Wall Street Journal*.

¹⁰ Feldman, E. (17 February 2012) "Driving over the Brink", *US-China Trade Law*, <http://www.chinaustradelawblog.com/tags/trade-dispute> (accessed 28 April 2012).

¹¹ McMahon, D. (2 March 2011) "Tilting at Windmills? The USTR, China and the WTO", *Wall Street Journal*.

Global Market

In 2011, there were 10.4 billion financial cards in circulation worldwide, with 49.6% of them in Asia Pacific, 19.7% in North America and 12.3% in Latin America [see **Exhibit 5**]. The value of financial card transactions amounted to US\$40.7 trillion the same year. The regions with the highest share of transaction value were Asia Pacific (27.7%), Western Europe (26.8%) and North America (24.2%) [see **Exhibit 6**]. The global EPS market was highly concentrated. The top four EPS providers had a combined market share of 80.1% in terms of transaction value in 2010 [see **Exhibit 7A**]. Visa was the leading player with 39.8% market share, followed by MasterCard Inc (“MasterCard”) (22.2%), CUP (11.4%) and American Express Inc (“American Express”) (6.7%). In terms of the number of financial cards, CUP ranked first with 29.2% of cards, compared to 28.6% from Visa and 20.0% from MasterCard [see **Exhibit 7B**].

China Market

Before 2000, cash had been the predominant form of payment transactions in China. By 2005, 87.8% of payment transactions were still conducted with cash [see **Exhibit 8**]. Since then, financial cards had gradually gained traction in the market. In 2010, card payment constituted 17.9% of the total number of consumer payments and 43.7% of their total value [see **Exhibits 8 and 9**]. Most financial cards were debit cards (83.2%). Credit cards made up 8.8%, and the remaining 8% were prepaid cards [see **Exhibit 10**]. But the number of credit card payments had surpassed that of debit cards since 2008 [see **Exhibit 11**], and by 2010, credit card payments made up 33.8% of the total card payment value, compared to 65.2% for debit cards [see **Exhibit 12**].

CUP was China's largest EPS provider. It was also the only company permitted to process inter-bank POS transactions denominated in Rmb. CUP accounted for 85.9% of financial cards in China in 2009. Visa and MasterCard trailed far behind, with 3.1% and 2.5%, respectively [see **Exhibit 13**]. The remaining financial cards were mainly prepaid cards operated by state-owned utilities or transportation companies. CUP's share in the total card payment value in China was 78.1% the same year, followed by Visa (12.5%) and MasterCard (7.8%) [see **Exhibit 14**]. According to Chinese regulations, foreign EPS providers were not allowed to process payment transactions in Rmb. Therefore they were excluded from the businesses of ATM cash transactions, debit cards and prepaid cards. Their operation was confined to processing inter-bank POS transactions in foreign currencies. All their credit cards had to be co-branded with CUP and carry CUP's logo.

Background of Visa Inc

Visa, headquartered in San Francisco in the United States, was the world's biggest EPS provider in terms of transaction value. Its core products included a namesake credit card, four brands of debit cards, a wide range of reloadable prepaid cards, and commercial payment solutions for businesses and governments [see **Exhibit 15**]. Visa did not directly issue financial cards. It offered a wide range of branded payment platforms to financial institutions that issued financial cards and/or provided cash access for their customers. These institutional clients were called members of Visa's international association. Visa supported them with transaction processing and value-added services. To ensure the efficient and secure operation of its payment network, which operated in more than 200 countries and territories, Visa enforced a common set of operating regulations for its members worldwide. In the financial year ended 30 September 2011, Visa processed payment transactions that amounted to US\$3.7 trillion for about 1.9 billion financial cards worldwide [see **Exhibit 15**]. The operating revenue was US\$9.2 billion, generating a net profit of US\$3.7 billion [see **Exhibit**

16A]. There were three major sources of revenue: service revenues (38.5%), data processing revenues (31.4%) and international transaction revenues (24.2%) [see **Exhibit 16B**].

History of Visa

Visa's history could be dated back to 1958 when Bank of America ("BOA") launched its pilot programme of a credit card, BankAmericard, in Fresno, California, in the United States. Following the initial success of this programme, in 1965 BOA expanded its credit card system to other states in the country through licensing. Since the late 1960s, BOA had also made agreements with banks in other countries to adopt this programme with localised credit card brands. In 1970, an independent corporation, National BankAmericard Inc ("NBI"), was founded to operate the BankAmericard in the United States. NBI was owned and managed by the card's issuing banks. Another corporation, IBANCO, was established four years later to manage the international credit card business. Then in 1975, all localised credit card brands in the network were unified under a new brand name, Visa. The network was run by four independent companies in different geographical regions: Visa International Service Association, Visa USA Inc, Visa Canada Association and Visa Europe Limited ("Visa Europe"). A global restructuring was announced in October 2006, which resulted in the first three entities being merged to form a public listed company, Visa Inc, in March 2008. Visa Europe remained a separate company owned by its member banks.

Duopoly of Visa and MasterCard

Almost a decade after the launch of the BankAmericard, a few US banks collaborated to form the second credit card network in the country. This network later expanded overseas and evolved to become MasterCard Inc. Similar to Visa, MasterCard was collectively owned by its member banks worldwide, which numbered to over 25,000 when the company went public in May 2006. Visa and MasterCard competed neck-and-neck in the United States and globally. Together, they formed a duopoly that dominated the global EPS market [see **Exhibits 7A and 7B**]. In the past, a number of high-profile antitrust cases had been filed against them. One of them was the 1996 class action lawsuit led by Wal-Mart Stores and Limited Brands in the United States against the pair for their practices of tying offline debit card acceptance to credit card acceptance. This case was settled with US\$3 billion in monetary damages, with US\$2 billion to be paid by Visa and US\$1 billion by MasterCard over 10 years. This was believed by many antitrust experts to be the largest antitrust settlement in history.¹²

Visa's and MasterCard's anti-competitive behavior has stifled competition between these two dominant networks and has thwarted competition from smaller networks. Competitive initiatives that could benefit consumers have been abandoned, delayed or suppressed. Consumer choice has been reduced, and competition among card networks has been substantially restrained.

- Janet Reno, Attorney General, United States Department of Justice, 1998¹³

Another case was filed in 1998 by the United States Department of Justice ("DOJ") against Visa and MasterCard for limiting competition in the credit card network market. The DOJ pointed out that Visa and MasterCard were jointly controlled by the same groups of banks, known in the industry as "duality", therefore they did not target one another in advertising campaigns and they had slowed down the development of new card products and

¹² Freed, D. (12 January 2012) "Massive Credit Card Antitrust Case Looms over Banks", *Mainstreet*, <http://www.mainstreet.com/article/moneyinvesting/credit/debt/massive-credit-card-antitrust-case-looms-over-banks?page=1> (accessed 20 April 2012).

¹³ Department of Justice, United States (7 October 1998) "Justice Department Files Antitrust Suit against Visa and MasterCard for Limiting Competition in Credit Card Network Market", http://www.justice.gov/atr/public/press_releases/1998/1974.htm (accessed 17 April 2012).

technologies.¹⁴ The two companies accounted for 75% of all credit card purchases in the United States at that time, and they adopted exclusionary rules that **prohibited member banks from doing business with other networks, such as American Express and Discover Inc**, though they allowed their member banks to issue each other's financial cards.¹⁵ In 2004, American Express filed an antitrust case against Visa and MasterCard, alleging that American Express had been excluded from offering credit cards through banks that were members of Visa or MasterCard. Visa agreed to settle this case in November 2007 with US\$2.25 billion compensation to American Express.¹⁶

Card Development in China and the Foundation of CUP

Financial cards had a relatively short history in China. The first financial card was a domestic credit card, the Great Wall Card, issued by the Bank of China in June 1985. Two years later, the Bank of China joined the international associations of Visa and MasterCard and subsequently launched the country's first batches of internationally accepted credit cards. Three other top local banks quickly followed: the Industrial and Commercial Bank of China issued its Peony Card in 1987, the China Construction Bank issued its Dragon Card in 1991 and the Agricultural Bank of China issued its Jinsui card the same year.¹⁷ However, each of these big-four banks had their own proprietary automatic teller machine ("ATM") and POS terminals. Financial cards issued by one bank could not be used in the terminals operated by another. Merchants had to sign separate contracts with individual card issuers to accept payment with their cards. That meant a merchant accepting cards from two issuers had to install two sets of POS terminals. In some cases, cards issued by one bank could be used in its own ATM and POS terminals in some but not all cities in China. With low interoperability of financial cards, many consumers were reluctant to sign up as cardholders. With few cardholders, many merchants refused to accept card payments, further dampening customers' enthusiasm to adopt financial cards.

In light of this situation, the Chinese government launched the Golden Card Project in 1993 to resolve the interoperability issue of financial cards. This project came to fruition in March 2002 with the establishment of CUP as a national bankcard association to process inter-bank card transactions [see **Exhibit 17**]. This company was owned by 84 local financial institutions and operated under the auspices of the People's Bank of China, China's central bank. The start-up capital amounted to US\$200 million.¹⁸ CUP's mission was to enable all cardholders to be able to use their cards at any ATM or POS terminals in China. In January 2003, interoperability of financial cards was achieved in places above prefecture and city levels. Besides processing inter-bank card transactions, CUP issued its own financial cards on the mainland, called UnionPay Cards. These cards had primary account numbers ("PANs") starting with "62" [see **Exhibit 18**].

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Gasparino, C. (1 November 2007) "Visa to Settle Antitrust Suit for Record \$2.25 Billion", *CNBC*.

¹⁷ Steve, W. (2005) "Entering the Market for Financial Services in Transitional Economies: A Case Study of Credit Cards in China", *The International Journal of Bank Marketing*, 23(4/5), pp. 381-396.

¹⁸ US\$1 = Rmb 8.28 during the period from 1994 to July 2005. Ibid.

From Cooperation to Competition

Visa Credit Cards Co-branded with CUP on the Mainland

China UnionPay has partnered with banks like Citibank, as well as with Visa, MasterCard, and, more recently, American Express, to bring co-branded cards to China, but at least for now, that is where it has stopped. It has the entire monopoly over domestic pricing and services.

- Paul Avery, regional director for Asia at Retail Decisions Inc¹⁹

In 1993, Visa established its first office on the Chinese mainland in Beijing. This was the only major market in the world where Visa was excluded from the domestic payment business.²⁰ During CUP's nascent stage of development, Visa had offered it assistance in establishing and maintaining a card payment network in China, hence CUP's first draft of operating regulations for institutional clients closely resembled those of Visa.²¹ Since 2002, Visa had partnered with CUP to offer co-branded Visa-UnionPay credit cards for local customers. These cards had PANs starting with "4", which were PANs registered by Visa with the International Organization for Standardization. Visa and CUP initially maintained an amicable business relationship, founded on a clear division of labour in processing card payments. All Rmb-denominated transactions were processed by CUP, while non-Rmb-denominated transactions made on the mainland or overseas were processed by Visa. Card issuers of these co-branded cards had to pay royalties to Visa, equivalent to 0.2% of the transaction value for international payments and 0.04% for local payments.

CUP's Initial Moves to Go Global on Its Own

Hong Kong, a southern Chinese city classified as a special administrative region outside the mainland, was a major financial centre with a well-established legal and financial infrastructure. It was also dubbed "the gateway to China" for foreign companies that wanted to enter this market. Under China's "one country, two systems" policy, the legal tender in Hong Kong was Hong Kong dollars rather than Rmb, and local companies were regarded as foreign-based capitals by the central government. In January 2004, CUP made its first step to go global by launching operations of POS transactions, ATM inquiry and cash withdrawal in Hong Kong for mainland-issued, Rmb-denominated CUP cards. This move came as a consequence of the Closer Economic Partnership Arrangement signed by the central government and the Hong Kong government in July 2003, which gave Hong Kong companies preferential treatment in accessing China's market in various sectors. Retailers in the city started to accept mainland visitors' cash and credit card payments in Rmb.

Then in December 2004, CUP upgraded its infrastructure with a self-designed, national card payment processing system. In the following month, CUP cards issued on the mainland were accepted overseas for the first time at ATM and POS terminals. The countries involved were Singapore, Thailand and South Korea. With this initial success, the company actively explored partnership opportunities with global, regional and local banks in other international markets to allow acceptance of CUP cards [see **Exhibit 17**]. For example, a deal signed in

¹⁹ Ross, J. (1 January 2012) "Could China Be the Cure for What Ails the U.S. Electronic Payments Market?", *Transaction Trends*.

²⁰ Anderlini, J. (16 September 2010) "Visa Blocked in China after UnionPay Dispute", *Financial Times*.

²¹ Wang, V. (1 December 2011) "Visa and China UnionPay: An Update on Their Struggle", *Global Insights*, <http://www.paymentlawadvisor.com/2011/12/01/visa-and-china-union-pay-an-update-on-their-struggle> (accessed 27 February 2012).

September 2005 allowed CUP cardholders to use Citigroup's global ATM network. Another agreement with EUFISERV in December the same year allowed cardholders to access ATM terminals in European countries, such as Germany, France, Spain, Belgium and Luxembourg.

CUP's Card Payment Network Overseas

In mid-2007, the relationship between Visa and CUP underwent a stress test because CUP made a strategic move to establish its own payment network overseas for handling transactions in foreign currencies. CUP aimed to develop an international bankcard brand on par with top-tier EPS providers such as Visa and MasterCard. Its payment network was gradually rolled out in Southeast Asia, Australia, the European Union and the United States. It could process not only CUP cards with PANs starting with "62", but also those cards co-branded with other EPS providers, including the Visa-UnionPay cards that started with "4". In line with this move, CUP formed partnerships abroad to issue CUP cards denominated in local currencies. For example, in December 2007, CUP credit cards denominated in Japanese yen were issued in Japan by Sumitomo Mitsui Card Company. Overseas retailers were happy to join CUP's payment network because its merchant fees were 15-20% lower than Visa's.²² As a result, CUP entered into direct competition with Visa for payment transactions denominated in foreign currencies and for securing merchant support in the international markets. As of February 2012, CUP cards were accepted in 117 countries and regions outside the Chinese mainland. Over 50 financial institutions in 10 countries and regions officially issued CUP cards denominated in local currencies.

Currency Settlement Fees for Chinese Travellers

Wherever there is [the] option of China UnionPay that you can access, I suggest you use UnionPay, especially if you care about the transaction fee of 1 to 2 percent of the total amount you have paid or withdrawn. For instance, it will save you 100 to 200 yuan²³ [US\$15–30] when you pay or withdraw 10,000 yuan [US\$1,520].

- Peng Xiaojun, head of the credit card centre at Shenzhen Development Bank²⁴

After CUP's strategic move in 2007 to expand its payment network overseas, Chinese travellers with co-branded Visa-UnionPay credit cards could opt for using either CUP's network or Visa's at overseas retailers that accepted both types of cards. They often chose the former because CUP did not levy any currency transaction fee for these international transactions, while Visa would charge a related fee of 1% to 2% of the transaction value. They only used Visa's network in second- or third-tier cities where CUP's network was not yet available. CUP had another advantage over Visa in currency conversion. For example, a cardholder had a co-branded Visa-UnionPay credit card issued by a Chinese bank, and he used this card in Japan to buy an item priced in yen. If CUP's network was used for processing this transaction, the cardholder was charged in Rmb using the same-day exchange rate set by China's State Administration of Foreign Exchange. If Visa's network was used, the cardholder was first charged in US dollars, and then the transaction would later be settled with the issuing bank in Rmb. This involved two currency conversions. The exchange rate for the second conversion was arbitrarily set by Visa using rates from major foreign exchange markets as references [see Exhibit 19].

²² Wang, V. (1 December 2011) "Visa and China UnionPay: An Update on Their Struggle", *Global Insights*, <http://www.paymentlawadvisor.com/2011/12/01/visa-and-china-union-pay-an-update-on-their-struggle> (accessed 27 February 2012).

²³ "Yuan" was the common name for Rmb, China's local currency.

²⁴ Zhang, W. (13 June 2010) "Visa Vs. China UnionPay", *CRI*, <http://english.cri.cn/8706/2010/06/07/1721s575246.htm> (accessed 27 February 2012).

Escalation of Trade Dispute

Wrestling between Visa and CUP

According to Visa's operating regulations, its business partners of co-branded cards had to process all international transactions through Visa's payment network. However, Chinese travellers with co-branded Visa-UnionPay cards, overseas retailers and CUP all collaborated in using CUP's network. Around October 2009, Visa warned CUP to stop processing international transactions for these co-branded cards. According to people in China's banking industry, since then, CUP had gradually expanded its cooperation with MasterCard and American Express but refused to consider any new business with Visa.²⁵ Facing a difficult business environment in China, Visa joined with other American companies in the industry to lobby the US government to tackle the trade barriers imposed by China on foreign EPS providers. In March 2010, US trade officials conducted talks with Visa, MasterCard and American Express regarding the possibility of taking actions against China at the WTO.

Visa's Warnings to Banks on Co-branded Cards

In June 2010, Visa sent a written reminder to banks outside China regarding Visa's operating regulations that required financial institutions to process international transactions outside China through Visa's payment network. It stated that banks had to stop using CUP's payment system for settling such transactions. Visa would start charging penalties from 1 August 2010 for non-compliance. The amount of the fines would be US\$50,000 and then an additional US\$25,000 every month after that.²⁶ CUP responded by saying: "Both companies have a responsibility and obligation to provide overseas transaction services to co-branded cardholders. Neither side has the right to unilaterally restrict cardholders' options for overseas payment channels."²⁷ Visa maintained its position that cards with PANs starting with "4" were registered by the company with the International Organization for Standardization, and hence should be subject to Visa's operating regulations.²⁸ MasterCard declined to comment on Visa's move, while the spokesperson for American Express said that the company did not intend to pursue a similar course of action.²⁹

WTO Complaint Filed by the US Government

Removal of the monopoly that China has provided to China UnionPay would create significantly expanded business opportunities in China's huge and growing market for American suppliers of this essential service.

- Ron Kirk, Trade Representative of the United States³⁰

On 15 September 2010, the US government escalated the trade dispute to the WTO by requesting consultations with China regarding its policies on EPS [see **Exhibit 20**]. It claimed that China had violated its market access and national treatment commitments under the GATS by allowing only CUP to process card transactions denominated and paid in Rmb. It also complained about the Chinese policy that required all financial card processing devices at

²⁵ Anderlini, J. (3 June 2010) "Visa in China Payments Clash", *Financial Times*.

²⁶ Kwaak, J. (5 August 2011) "Is Visa Predatory?", *Korean Times*.

²⁷ Anderlini, J. (3 June 2010) "Visa in China Payments Clash", *Financial Times*.

²⁸ Wang, V. (1 December 2011) "Visa and China UnionPay: An Update on Their Struggle", *Global Insights*, <http://www.paymentlawadvisor.com/2011/12/01/visa-and-china-union-pay-an-update-on-their-struggle> (accessed 27 February 2012).

²⁹ Cuyoo, "AmEx Won't Match Visa's Ban in China", http://www.cuyoo.com/home/portal.php?mod=view_both&aid=1668 (accessed 27 February 2012).

³⁰ International Centre for Trade and Sustainable Development (18 February 2011) "US Requests WTO Panels to Rule on Two Disputes with China", <http://ictsd.org/i/news/bridgesweekly/101095> (accessed 28 September 2011).

merchant locations in China to be compatible with CUP's system. This gave CUP guaranteed access to all domestic merchants, whereas foreign EPS providers had to negotiate with individual merchants for access [see **Exhibit 21**]. According to some US lawyers, trade officials and finance executives, China had violated its commitment to open the country's EPS sector by the end of 2006, made when it acceded to the WTO in December 2001. This commitment was alleged to cover "all payment and money transmission services, including credit, charge and debit cards".³¹ However, the Chinese government declared that it had not made such a commitment. As the issue could not be resolved through consultations, in February 2011, the United States requested the creation of a WTO panel to settle this dispute.

Antitrust Case against Visa in South Korea

Visa breached the fair trade law by forcing its membership companies to process international transactions only through its VisaNet payment system.

- A statement made by BC Card in its petition to the Fair Trade Commission³²

BC Card Company Limited ("BC Card") was the leading EPS provider in South Korea. It had been CUP's business partner since January 2005, when CUP cards were first accepted overseas. In mid-2011, Visa imposed fines of US\$100,000 on BC Card for processing international transactions through two payment networks other than Visa's. Half of the fines were for processing transactions of co-branded Visa-UnionPay cards made by Chinese cardholders in South Korea through CUP's network. The remaining fines were for processing transactions of co-branded Visa-BC cards made by South Korean cardholders in the United States through Star Network, a US-based ATM company. Both CUP and Star Network did not charge South Korean customers a currency settlement fee for international transactions, while Visa charged a 1% service fee. Moreover, card issuers in South Korea had to pay royalties to Visa for co-branded cards according to the payment value, 0.2% for international transactions and 0.04% for domestic ones. In response, BC Card filed an antitrust complaint against Visa with the country's Fair Trade Commission over Visa's restriction imposed on its members in processing international transactions only through its network. The company said its alliance with CUP and Star Network benefited customers because local card issuers did not have to pay royalties to these EPS providers, as in the deal with Visa or MasterCard, and customers could save the 1% currency settlement fee.³³

CUP commented that it was unfair to charge royalties for co-branded credit cards to settle domestic transactions.³⁴ Some industry experts regarded Visa's penalty action as unusual. "It's strange that Visa would fine BC [Card], [which is] in a way its competitor. It should be the banks and credit card issuers that [may] get fined, like in China," said Eric Grover, payment system expert at Intrepid Ventures, a US-based investment advisory firm.³⁵ But Visa had not imposed any fines on CUP or Star Network, nor on the Global ATM Alliance, a set of shared bank networks that allowed customers of member banks to withdraw cash from each other's networks without additional charges.³⁶

³¹ Anderlini, J. (3 June 2010) "Visa in China Payments Clash", *Financial Times*.

³² Xinhua News (5 July 2011) "S. Korea's BC Card Files Case against Visa for Abusing Dominant Position", <http://english.people.com.cn/90001/90778/90859/7429626.html> (accessed 27 February 2012).

³³ China Daily (27 June 2011) "Spat between Visa, China UnionPay Spills into BC Card".

³⁴ Ibid.

³⁵ According to Eric Grover, Visa had not taken any action against banks and credit card issuers in China, although it gave them warnings of penalties for non-compliance in June 2010. See Kwaak, J. (5 August 2011) "Is Visa Predatory?", *Korean Times*.

³⁶ Ibid.

Final WTO Review of China's Accession in October 2011

While we welcome China's progress in implementing many of its financial services commitments, it appears that China has not implemented, or has only partially implemented, some of them.

- A statement made by the US Trade Representative's office at the WTO³⁷

One of the terms of China's accession to the WTO in 2001 was an annual review of its progress in fulfilling its commitments. At the final review during the 10th anniversary of its accession, conducted in October 2011, the United States criticised China for failing to open its financial services market as committed. This included maintaining **restrictions on foreign ownership of Chinese banks and insurance companies, allowing a monopoly by CUP in EPS, and setting long approval processes for foreign banks to establish new branches**. China's trade representative replied that the **country had never made any commitment on bank acquisitions and denied that CUP had a monopoly in EPS**. He said CUP was simply the only service provider for inter-bank clearing of bankcard payments, and that China had no WTO obligation to open up its market to non-financial institutions such as Visa, although it would **gradually open up bankcard clearing as the market developed**.³⁸ This interpretation of China's WTO commitments differed significantly from that of the United States, which included full foreign access to China's EPS market by the end of 2006.

Changing Competitive Landscape

Threat from MasterCard

Over the years, MasterCard had been lagging behind Visa in China's EPS market [see **Exhibits 13** and **14**]. As the dispute between Visa and CUP escalated, in mid-September 2010, CUP signed a memorandum of understanding with MasterCard to enhance cooperation between the two companies. This happened around the same time that the US government filed the WTO complaint against China regarding CUP's monopoly in the EPS sector. Facing a new threat from MasterCard in becoming CUP's favoured partner, Visa reaffirmed its sincerity in fostering a long-term relationship with CUP.

*We believe our relationships with local industry partners like China UnionPay will position us to capitalize on the greater opportunities **that will be available as China continues to open its markets**. . . . We are also working with Chinese banks to support **dual-branded/dual-currency cards**, which utilize the Visa network for transactions outside of China.*

- Elizabeth Buse, Visa Group President, Asia Pacific and EMEA, **September 2010**³⁹

CUP Ramping up Its Global Reach

Since late 2009, CUP had geared up its global expansion effort through forming foreign partnerships [see **Exhibit 22**], particularly in Asia Pacific, which had the highest number of financial cards and value of payment transactions among all regions [see **Exhibits 5** and **6**]. Its disagreement with Visa had also prompted the company to accelerate launching financial cards with PANs starting with "62" both in China and overseas. According to Retail Banking Research, CUP surpassed Visa as the world's largest EPS provider in 2010 in terms of

³⁷ Palmer, D. and Miles, T. (31 October 2011) "U.S., EU, Japan Press China on Financial Services at WTO", *Reuters*.

³⁸ *Ibid.*

³⁹ Buse, E. (15 September 2010) "Dispatch from the World Economic Forum", Visa Inc, <http://blog.visa.com/2010/09/15/update-from-elizabeth-buse-dispatch-from-the-world-economic-forum> (accessed 24 February 2012).

number of financial cards [see **Exhibit 7B**].⁴⁰ In 2011, CUP started offering dual-currency cards overseas, denominated in Rmb and the local currency. These included a corporate credit card issued by the Bank of China in Hong Kong, a credit card for general consumers issued by HSBC in Hong Kong and a debit card issued by the Bank of China in Thailand.

Rapid Growth in Chinese Outbound Travellers

Overseas travel had been one of the major forces driving the rapid growth in credit card payments by Chinese residents [see **Exhibit 23**]. According to the UN World Tourism Organization, China was the fastest growing outbound travel market in the world in 2010 and it was expected to have around 100 million outbound travellers by 2020.⁴¹ In 2011, the number of outbound travellers was around 65 million, roughly half the number of inbound ones (136 million).⁴² In the first half of the same year, outbound travellers spent a total of US\$33.1 billion overseas, exceeding the amount spent by foreign visitors in China by US\$10.7 billion [see **Exhibit 24**]. The high purchasing power of outbound Chinese travellers made this market segment particularly important to credit card operators. However, as CUP cards penetrated more and more cities outside China, many of these cardholders bypassed Visa by using CUP's payment network. Even worse, a lot of them who once owned a co-branded Visa-UnionPay credit card simply opted for a CUP card upon card renewal. Thus Visa became increasingly marginalised in this lucrative market segment.

While Visa did not realise much success in penetrating the home turf of CUP, it could not do much to curb CUP's stellar growth in its backyard in the United States. For example, the 1.1 million travellers from the Chinese mainland who visited the United States in 2011 [see **Exhibit 25**] spent an average of US\$7,200 per person, compared to the average spending of US\$4,500 per person by all international visitors.⁴³ Although China only ranked ninth among the United States' top markets for international travel that year [see **Exhibit 26**], Roger Dow, president and CEO of the US Travel Association, projected that in five to 10 years at most, China would become the country's number one inbound travel market with several million visits.⁴⁴ Unless Visa could persuade Chinese travellers to make credit card purchases through its network, this huge market opportunity would just be sour grapes.

Inroads Made by Citigroup in Issuing Credit Cards in China

In February 2012, Citigroup became the first Western bank that was allowed to issue its own credit cards denominated in Rmb on the Chinese mainland, but all transactions still had to be processed by CUP. The only other non-mainland bank with this permission was the Bank of East Asia based in Hong Kong. Some analysts viewed Citigroup's case as a positive signal for China further opening its financial sector to foreign competition. Stuart Eizenstat, a partner at the US law firm Covington & Burling, commented: "I have no doubt that the WTO case [regarding electronic payment services] is a major reason why China has issued this license. . . . By this action, they are trying to take the 'sting' out of any adverse ruling." However, the spokesperson of the US Trade Representative's Office, Nkenge Harmon, said that China's decision on Citigroup "has no bearing on the U.S. WTO claims".⁴⁵

⁴⁰ Philippine Star (6 August 2011) "China UnionPay Overtakes Visa", <http://www.philstar.com/Article.aspx?articleId=717115&publicationSubCategoryId=74> (accessed 28 September 2011).

⁴¹ China Travel Trends (27 June 2010) "US Travel Chief Lobbies for Chinese Tourists", <http://www.chinatraveltrends.com/2010/06/us-travel-chief-lobbies-for-chinese-tourists> (accessed 20 April 2012).

⁴² China Outbound Tourism Research Institute (7 November 2011) "China Soaring Towards New Tourism Records", <http://www.chinatraveltrends.com/2011/11/china-soaring-towards-new-tourism-records-more-than-2-billion-domestic-and-over-50-million-outbound-travellers-in-the-first-nine-months-of-2011> (accessed 20 April 2012).

⁴³ China Travel Trends (27 June 2010) "US Travel Chief Lobbies for Chinese Tourists", <http://www.chinatraveltrends.com/2010/06/us-travel-chief-lobbies-for-chinese-tourists> (accessed 20 April 2012).

⁴⁴ Ibid.

⁴⁵ Dezan Shira & Associates (22 February 2012) "Citibank Permitted to Issue Credit Cards in China", <http://www.corporatelivewire.com/top-story.html?id=206> (accessed 7 March 2012).

Recent Antitrust Cases against Visa

Visa, MasterCard and American Express used to impose restrictive regulations on their merchants to prevent them from offering discounts and other incentives to customers for alternative forms of payment, including no-frills cards that had lower transaction costs for the merchants. The DOJ filed an antitrust lawsuit against these three EPS providers in 2010 for such anticompetitive business practices. Visa and MasterCard settled this case with the DOJ in October the same year by removing those restrictions for their over 4 million merchants in the United States.

Riding on the success of this case, in January 2012, around 5 million US merchants filed a class antitrust lawsuit against Visa, MasterCard and 13 big banks for colluding to charge credit card transaction fees in the United States that were much higher than what they would otherwise be in an open, competitive market. The interchange fees for credit card transactions paid by merchants to banks in the United States were 2% of the transaction value, compared to 1.5% in Canada, 0.5% in the United Kingdom and 0.3% in the European Union [see Exhibit 27]. The plaintiffs also claimed that the banks' decision to allow MasterCard and Visa to go public in May 2006 and March 2008, respectively, was a disingenuous effort to avoid the appearance of a monopoly.⁴⁶ Analysts estimated that the potential settlement of this case might vary from a few billion US dollars to hundreds of billions, and the ruling might lead to a big reduction in interchange fees for credit card transactions in the country.⁴⁷ Merchants in other countries were also closely watching the development of this lawsuit. Bert Foer, president of the American Antitrust Institute, commented: "Reformation of the credit and debit card infrastructure [as a consequence of this case] would have a significant impact on commerce going forward."⁴⁸ The court hearing was scheduled to be in September 2012, and the judge assigned to this lawsuit was Judge John Gleeson, who handed down a US\$3 billion settlement in the 1996 class action against Visa and MasterCard.

While Visa was busy handling this antitrust case, a major revamp on interchange fees in China was proposed in December 2011. Since March 2004, the interchange fees for local purchases had been fixed by the Chinese government at 1.6%, of which 1.4% was paid to banks and 0.2% was paid to CUP.⁴⁹ In the new proposal, the interchange fees charged by banks would be a variable rate based on the transaction value: 0.35% for purchases less than Rmb 5,000 (US\$759), 0.3% for purchases between Rmb 5,000 and Rmb 10,000 (US\$759–1,518), and 0.2% for purchases over Rmb 10,000 (US\$1,518), with the fee per transaction being capped at Rmb 100 (US\$15.18).⁵⁰ No interchange fee would be levied for transactions processed by the same bank. The new interchange fees charged by CUP were proposed to be 0.05% of the transaction value, capped at Rmb 5 (US\$0.76) per transaction.⁵¹ If implemented, China would be among those countries with the lowest interchange fees for credit card transactions, further fuelling market growth in the country.

⁴⁶ Freed, D. (12 January 2012) "Massive Credit Card Antitrust Case Looms over Banks", *Mainstreet*, <http://www.mainstreet.com/article/moneyinvesting/credit/debt/massive-credit-card-antitrust-case-looms-over-banks?page=1> (accessed 20 April 2012).

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ 中国网 (2011 年 12 月 19 日) "微薄之利承受不起刷卡手续费之重" [China Net (19 December 2011) "Cannot Afford High Costs of Swiping Cards with Meagre Profit"], <http://bank.jrj.com.cn/2011/12/19112311863800-1.shtml> (accessed 17 April 2012).

⁵⁰ US\$1 = Rmb 6.5872 on 31 December 2010.

⁵¹ 中国网 (2011 年 12 月 19 日) "微薄之利承受不起刷卡手续费之重" [China Net (19 December 2011) "Cannot Afford High Costs of Swiping Cards with Meagre Profit"], <http://bank.jrj.com.cn/2011/12/19112311863800-1.shtml> (accessed 17 April 2012).

Visa's Strategies Ahead

In terms of transactions and overall users, China's credit and debit card market is already as big [as] or bigger than in the US. But within the next two to four years, China's online payments market will surpass that of the US.

- Dave Carini, managing director at Maverick China Research, January 2012⁵²

China had a huge population of 1.34 billion people. Financial cards accounted for around 35% of the country's retail spending in 2011, and online retail transactions exceeded US\$156 billion the same year.⁵³ Affluent Chinese travellers taking leisure trips overseas became an important driving force for growth in card payment transactions in the Asia Pacific region. As of January 2012, China's credit and debit cards were expected to grow at 20% annually.⁵⁴ However, regulatory barriers remained a big problem for foreign companies like Visa in cracking this market. Although the dispute over CUP's monopoly was being resolved through the WTO, it would be a long time before a final settlement was reached. The final panel report was scheduled to be completed in May 2012. Assuming China would not settle for any unfavourable outcome, some analysts expected the issue could take a total of five years to fully work its way through the dispute settlement process. They also opined that even if the United States eventually won this case, the Chinese government might still introduce administrative measures to limit the business development of foreign EPS providers.⁵⁵

In February 2012, Visa's management was contemplating what strategies it should pursue before China finally opened its EPS market. Were there any means to challenge CUP's monopolistic position in China? Should Visa foster a closer relationship with CUP, or should it go the opposite way? For Chinese travellers with co-branded Visa-UnionPay credit cards, how could Visa ensure they would pay through Visa's network? As some customers with these co-branded credit cards simply opted for CUP cards upon card renewal, what measures could Visa implement to reduce the attrition rate? If Visa insisted on its rule of processing international transactions only through its network for co-branded cards, would it result in a boom in credit cards co-branded by CUP and Visa's competitors? Moreover, CUP had had the highest number of financial cards worldwide since 2010, so would CUP one day surpass Visa in terms of global transaction value? What should Visa do to prevent this from happening and to regain the top position for the number of cards in circulation? And last but not least, the antitrust case filed against Visa by 5 million US merchants in January 2012 might result in a big reduction in interchange rates in the United States and trigger a wave of antitrust lawsuits against the company in other countries. Would this seriously undermine Visa's bottom line? How should Visa realign its global strategies in response to the changing market situations?

⁵² Ross, J. (1 January 2012) "Could China Be the Cure for What Ails the U.S. Electronic Payments Market?", *Transaction Trends*.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ McMahon, D. (2 March 2011) "Tilting at Windmills? The USTR, China and the WTO", *Wall Street Journal*.

EXHIBIT 1: EXCERPTS OF GENERAL AGREEMENT ON TRADE IN SERVICES**Article XVI: Market Access**

1. With respect to market access through the modes of supply identified in Article I, each Member shall accord services and service suppliers of any other Member treatment no less favourable than that provided for under the terms, limitations and conditions agreed and specified in its Schedule.

2. In sectors where market-access commitments are undertaken, the measures which a Member shall not maintain or adopt either on the basis of a regional subdivision or on the basis of its entire territory, unless otherwise specified in its Schedule, are defined as:

(a) limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;

(b) limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;

(c) limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;

(d) limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;

(e) measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service; and

(f) limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

Article XVII: National Treatment

1. In the sectors inscribed in its Schedule, and subject to any conditions and qualifications set out therein, each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment no less favourable than that it accords to its own like services and service suppliers.

2. A Member may meet the requirement of paragraph 1 by according to services and service suppliers of any other Member, either formally identical treatment or formally different treatment to that it accords to its own like services and service suppliers.

3. Formally identical or formally different treatment shall be considered to be less favourable if it modifies the conditions of competition in favour of services or service suppliers of the Member compared to like services or service suppliers of any other Member.

Source: World Trade Organization, "General Agreement on Trade in Services",
http://www.wto.org/english/docs_e/legal_e/26-gats_01_e.htm (accessed 28 February 2012).

EXHIBIT 2: STAGES AND TIMELINE FOR DISPUTE RESOLUTION AT WTO

Typical Timeline	Stage
60 days	Consultations, mediation, etc
45 days	Panel set up and panellists appointed
6 months	Final panel report to parties
3 weeks	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 year	(without appeal)
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 1 year and 3 months	(with appeal)

Source: World Trade Organization, "Understanding the WTO: Settling Disputes", http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm (accessed 28 February 2012).

EXHIBIT 3A: EXCERPT OF THE US-CHINA BILATERAL WTO AGREEMENT IN 1999

The US-China Bilateral WTO Agreement signed in 1999 covered all agricultural products, all industrial goods, and all service areas. The following is an excerpt of this agreement on the banking sector.

BANKING

Currently foreign banks are not permitted to do local currency business with Chinese clients (a few can engage in local currency business with their foreign clients). China imposes severe geographic restrictions on the establishment of foreign banks.

- China has committed to full market access in five years for U.S. banks.
- Foreign banks will be able to conduct local currency business with Chinese enterprises starting 2 years after accession.
- Foreign banks will be able to conduct local currency business with Chinese individuals from 5 years after accession.
- Foreign banks will have the same rights (national treatment) as Chinese banks within designated geographic areas.
- Both geographic and customer restrictions will be removed in five years.
- Non-bank financial companies can offer auto financing upon accession.

Source: The White House Office of Public Liaison (17 November 1999) "Briefing on the Clinton Administration Agenda for the World Trade Organization Material", <https://www.uschina.org/public/991115a.html> (accessed 1 March 2012).

EXHIBIT 3B: EXCERPT OF CHINA'S SERVICES SCHEDULE FOR WTO ACCESSION

Modes of supply: (1) Cross-border supply (2) Consumption Abroad (3) Commercial presence (4) Presence of natural persons

Sector or Sub-Sector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
<p>Banking and other financial services (excluding insurance and securities)</p> <p>Banking services as listed below:</p> <p>a. Acceptance of deposits and other repayable funds from the public;</p> <p>b. Lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transaction;</p> <p>c. Financial leasing;</p> <p>d. All payment and money transmission services, including credit, charge and debit cards, travellers cheques and bankers drafts (including import and export settlement);</p> <p>e. Guarantees and commitments;</p> <p>f. Trading for own account or for account of customers: foreign exchange.</p>	<p>(1) Unbound except for the following:</p> <ul style="list-style-type: none"> - Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services; - Advisory, intermediation and other auxiliary financial services on all activities listed in subparagraphs (a) through (k), including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy. <p>(2) None</p> <p>(3) A. <u>Geographic coverage</u> For foreign currency business, there will be no geographic restriction upon accession. For local currency business, the geographic restriction will be phased out as follows: Upon accession, Shanghai, Shenzhen, Tianjin and Dalian; Within one year after accession, Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan; within two years after accession, Jinan, Fuzhou, Chengdu and Chongqing; within three years after accession, Kunming, Beijing and Xiamen; Within four years after accession, Shantou, Ningbo, Shenyang and Xi'an. Within five years after accession, all geographic restrictions will be removed.</p> <p>B. <u>Clients</u> For foreign currency business, foreign financial institutions will be permitted to provide services in China without restriction as to clients upon accession. For local currency business, within two years after accession, foreign financial institutions will be permitted to provide services to Chinese enterprises. Within five years after accession, foreign financial institutions will be permitted to provide services to all Chinese clients. Foreign financial institutions licensed for local</p>	<p>(1) None</p> <p>(2) None</p> <p>(3) Except for geographic restrictions and client limitations on local currency business (listed in the market access column), foreign financial institution may do business, without restrictions or need for case-by-case approval, with foreign invested enterprises, non-Chinese natural persons, Chinese natural persons and Chinese enterprises. Otherwise, none.</p> <p>(4) Unbound except as indicated in Horizontal Commitments.</p>	<p>For financial leasing services, foreign financial leasing corporations will be permitted to provide financial leasing service at the same time as domestic corporations.</p>

	<p>currency business in one region of China may service clients in any other region that has been opened for such business.</p> <p>C. <u>Licensing</u> Criteria for authorization to deal in China's financial services sector are solely prudential (i.e., contain no economic needs test or quantitative limits on licenses). Within five years after accession, any existing non-prudential measures restricting ownership, operation, and juridical form of foreign financial institutions, including on internal branching and licenses, shall be eliminated.</p> <p>Foreign financial institutions who meet the following condition are permitted to establish a subsidiary of a foreign bank or a foreign finance company in China: total assets of more than US \$10 billion at the end of the year prior to filing the application.</p> <p>Foreign financial institutions who meet the following condition are permitted to establish a branch of a foreign bank in China: total assets of more than US \$20 billion at the end of the year prior to filing the application.</p> <p>Foreign financial institutions who meet the following condition are permitted to establish a Chinese-foreign joint bank or a Chinese-foreign joint finance company in China: total assets of more than US \$10 billion at the end of the year prior to filing the application.</p> <p>Qualifications for foreign financial institutions to engage in local currency business are as follows: three years business operation in China and being profitable for two consecutive years prior to the application, otherwise, none.</p> <p>(4) Unbound except as indicated in Horizontal Commitments.</p>		
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Source: World Trade Organization (1 October 2001) "Schedule CLII—The People's Republic of China", http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm#chn (accessed 28 April 2012).

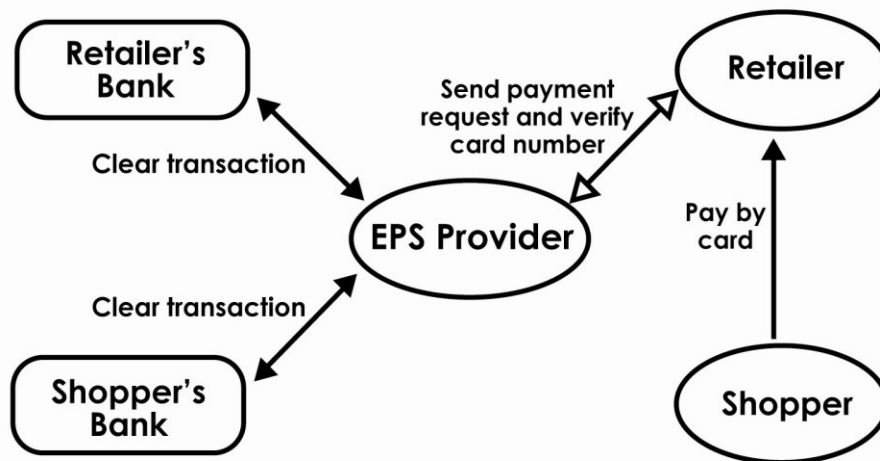
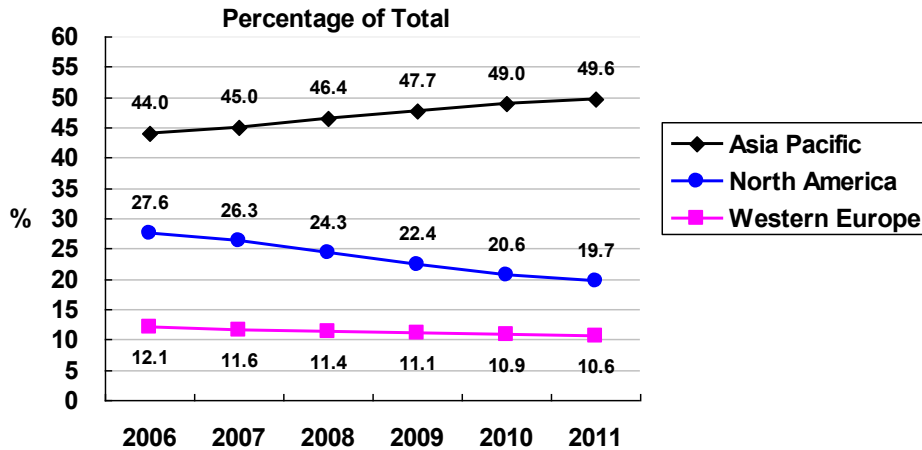
EXHIBIT 4: PROCESSING OF ELECTRONIC PAYMENTS BY EPS PROVIDERS

EXHIBIT 5: NUMBER OF FINANCIAL CARDS IN CIRCULATION WORLDWIDE

Regions	Number of Financial Cards Worldwide (million)						% of Total
	2006	2007	2008	2009	2010	2011	2011
Asia Pacific	3,163.8	3,548.3	3,984.3	4,387.3	4,762.2	5,149.2	49.6
North America	1,985.0	2,074.7	2,083.0	2,061.7	2,002.5	2,048.2	19.7
Latin America	691.6	792.3	911.3	1,039.5	1,154.1	1,273.0	12.3
Western Europe	870.5	913.0	975.5	1,016.5	1,055.7	1,101.9	10.6
Middle East and Africa	203.1	221.7	252.4	280.0	310.8	346.7	3.3
Eastern Europe	213.2	253.8	282.5	286.0	302.0	316.9	3.1
Australasia	67.8	81.1	97.5	118.7	130.7	143.1	1.4
Total worldwide	7,194.9	7,884.9	8,586.4	9,189.8	9,717.9	10,379.0	100

Regions	Year-on-Year Growth (%)				
	2007	2008	2009	2010	2011
Asia Pacific	12.2	12.3	10.1	8.5	8.1
North America	4.5	0.4	(1.0)	(2.9)	2.3
Latin America	14.6	15.0	14.1	11.0	10.3
Western Europe	4.9	6.8	4.2	3.9	4.4
Middle East and Africa	9.2	13.8	11.0	11.0	11.6
Eastern Europe	19.1	11.3	1.2	5.6	4.9
Australasia	19.6	20.2	21.8	10.1	9.5
Total worldwide	9.6	8.9	7.0	5.7	6.8

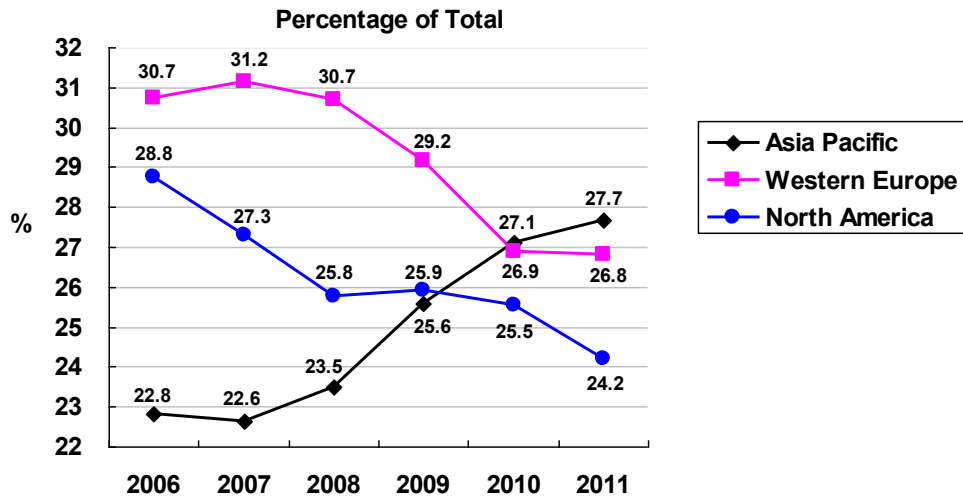


Source: Global Market Information Database, “Consumer Finance—Market Sizes” (accessed 1 March 2012).

EXHIBIT 6: VALUE OF FINANCIAL CARD TRANSACTIONS WORLDWIDE

Regions	Value of Transactions Worldwide (US\$ billion)						% of Total 2011
	2006	2007	2008	2009	2010	2011	
Asia Pacific	6,851	7,635	8,636	9,188	10,459	11,256	27.7
Western Europe	9,223	10,502	11,282	10,480	10,374	10,894	26.8
North America	8,636	9,204	9,472	9,316	9,850	9,835	24.2
Latin America	2,193	2,622	2,977	2,936	3,502	3,866	9.5
Eastern Europe	1,387	1,832	2,338	1,972	2,227	2,445	6.0
Middle East and Africa	1,105	1,188	1,260	1,276	1,271	1,351	3.3
Australasia	624	733	782	759	897	1,002	2.5
Total worldwide	30,020	33,714	36,746	35,928	38,581	40,650	100

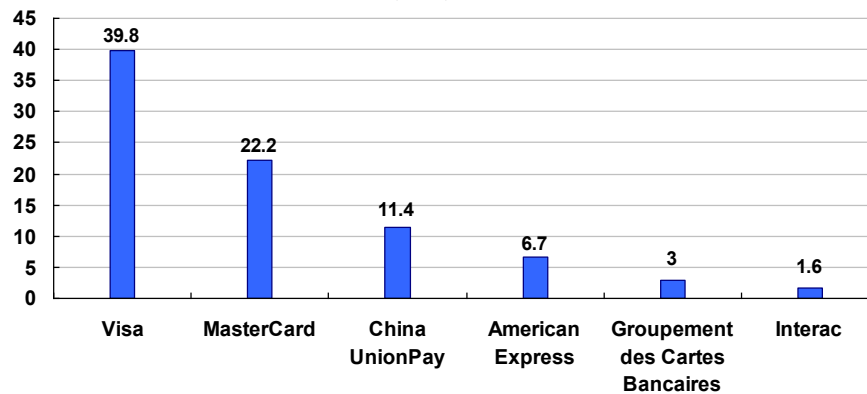
Regions	Year-on-Year Growth (%)				
	2007	2008	2009	2010	2011
Asia Pacific	11.4	13.1	6.4	13.8	7.6
Western Europe	13.9	7.4	(7.1)	(1.0)	5.0
North America	6.6	2.9	(1.6)	5.7	(0.2)
Latin America	19.6	13.5	(1.4)	19.3	10.4
Eastern Europe	32.1	27.6	(15.7)	12.9	9.8
Middle East and Africa	7.5	6.1	1.3	(0.4)	6.3
Australasia	17.5	6.7	(2.9)	18.2	11.7
Australasia	17.5	6.7	(2.9)	18.2	11.7
Total worldwide	12.3	9.0	(2.2)	7.4	5.4



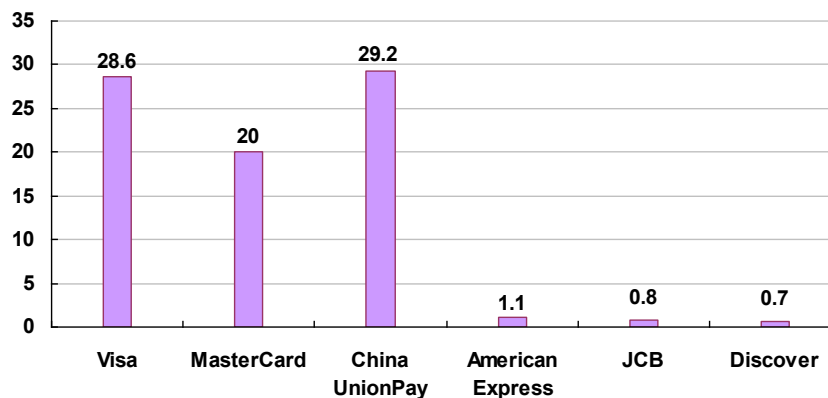
Source: Global Market Information Database, “Consumer Finance—Market Sizes” (accessed 1 March 2012).

EXHIBIT 7A: RANKING OF GLOBAL EPS PROVIDERS BY PAYMENT VALUE

Operator of Financial Cards	Ranking by Global Payment Value					Share (%)
	2006	2007	2008	2009	2010	2010
Visa	1	1	1	1	1	39.8
MasterCard	2	2	2	2	2	22.2
China UnionPay	4	4	4	3	3	11.4
American Express	3	3	3	4	4	6.7
Groupement des Cartes Bancaires	5	5	5	5	5	3.0
Interac	6	6	6	7	6	1.6
ZKA	7	7	7	6	7	1.4
Discover	8	8	8	8	8	1.3
Eftpos	-	-	-	12	9	1.0
Currence Holding	9	9	9	9	10	1.0
JCB Co Ltd	11	12	12	11	11	1.0

Global Market Share by Payment Value in 2010 (%)

Source: Global Market Information Database (January 2012) “China UnionPay Co Ltd in Consumer Finance (World)” (accessed 1 March 2012).

EXHIBIT 7B: RANKING OF GLOBAL EPS PROVIDERS BY NUMBER OF CARDS**Global Market Share by Number of Financial Cards in 2010 (%)**

Source: Philippine Star (6 August 2011) “China UnionPay Overtakes Visa”, <http://www.philstar.com/Article.aspx?articleId=717115&publicationSubCategoryId=74> (accessed 28 September 2011).

EXHIBIT 8: NUMBER OF CONSUMER PAYMENTS BY TRANSACTION TYPE IN CHINA

Transaction Type	Number of Consumer Payment Transactions (million)						% of Total
	2005	2006	2007	2008	2009	2010	2010
Card payment transactions (excluding commercial)	3,709	4,606	6,245	7,694	9,130	10,484	17.9
Electronic direct/ACH transactions	568	642	737	826	1,016	1,219	2.1
Paper payment transactions	30,789	29,304	30,497	36,459	42,954	46,774	80.0
Total	35,076	34,552	37,480	44,980	53,100	58,476	100

Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

EXHIBIT 9: VALUE OF CONSUMER PAYMENTS BY TRANSACTION TYPE IN CHINA

Transaction Type	Value of Consumer Payment Transactions (US\$ billion) ¹					
	2005	2006	2007	2008	2009	2010
Card payment transactions (excluding commercial)	147	291	458	600	1,037	1,276
Electronic direct/ACH transactions	49	83	120	131	158	186
Paper payment transactions	826	781	881	1,103	1,303	1,459
Total	1,022	1,155	1,459	1,834	2,497	2,921

¹ The original data was denoted in Rmb. US\$1 = Rmb 6.5872 on 31 December 2010.

Transaction Type	Value of Consumer Payment Transactions (% of Total)					
	2005	2006	2007	2008	2009	2010
Card payment transactions (excluding commercial)	14.4	25.2	31.4	32.7	41.5	43.7
Electronic direct/ACH transactions	4.8	7.2	8.2	7.2	6.3	6.4
Paper payment transactions	80.8	67.6	60.4	60.1	52.2	49.9
Total	100	100	100	100	100	100

Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

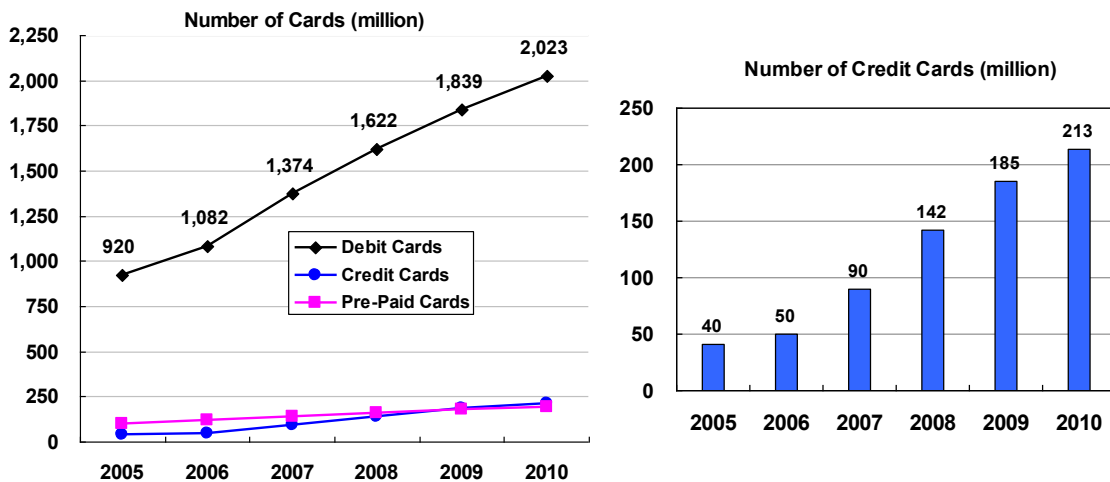
EXHIBIT 10: NUMBER OF FINANCIAL CARDS IN CIRCULATION IN CHINA

Type of Cards	Number of Financial Cards in Circulation (million)					
	2005	2006	2007	2008	2009	2010
ATM function	960	1,132	1,465	1,764	2,024	2,236
Credit function	40	50	90	142	185	213
Debit function	920	1,082	1,374	1,622	1,839	2,023
Pre-paid function	97	117	137	162	178	195
Total ¹	1,057	1,249	1,601	1,926	2,202	2,431

¹ Some cards had more than one function. There was no charge card or store card in circulation in the specified period.

Type of Cards	Number of Financial Cards in Circulation (% of Total)					
	2005	2006	2007	2008	2009	2010
ATM function	90.8	90.6	91.5	91.6	91.9	92.0
Credit function	3.8	4.0	5.6	7.4	8.4	8.8
Debit function	87.0	86.6	85.8	84.2	83.5	83.2
Pre-paid function	9.2	9.4	8.5	8.4	8.1	8.0
Total	100	100	100	100	100	100

Type of Cards	Year-on-Year Growth (%)				
	2006	2007	2008	2009	2010
ATM function	17.8	29.4	20.4	14.8	10.5
Credit function	22.8	82.1	57.4	30.4	15.1
Debit function	17.6	27.0	18.0	13.4	10.0
Pre-paid function	20.8	16.4	18.7	10.0	9.5
Total	18.1	28.2	20.3	14.4	10.4



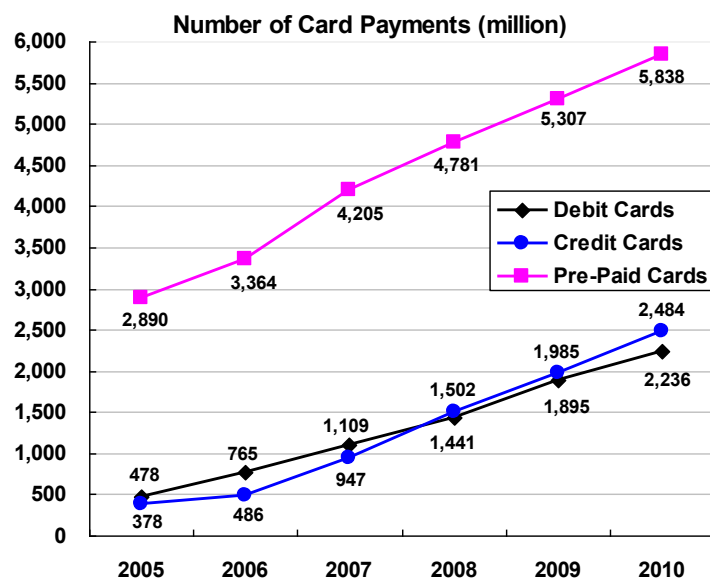
Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

EXHIBIT 11: NUMBER OF FINANCIAL CARD TRANSACTIONS IN CHINA

Type of Transactions	Number of Financial Card Transactions (million)					
	2005	2006	2007	2008	2009	2010
ATM transactions	3,261	3,825	4,590	5,462	6,664	7,597
Card payments	3,746	4,615	6,261	7,725	9,187	10,558
Total	7,006	8,440	10,851	13,187	15,851	18,155
	Breakdown of Number of Card Payments (million)					
Debit cards	478	765	1,109	1,441	1,895	2,236
Credit cards	378	486	947	1,502	1,985	2,484
Prepaid cards	2,890	3,364	4,205	4,781	5,307	5,838

Type of Payments	Breakdown of Number of Card Payments (% of Total)					
	2005	2006	2007	2008	2009	2010
Debit cards	12.8	16.6	17.7	18.7	20.6	21.2
Credit cards	10.1	10.5	15.1	19.4	21.6	23.5
Prepaid cards	77.2	72.9	67.2	61.9	57.8	55.3
Total	100	100	100	100	100	100

Type of Payments	Growth in Number of Card Payments (%)				
	2006	2007	2008	2009	2010
Debit cards	60.0	45.0	30.0	31.5	18.0
Credit cards	28.6	95.0	58.6	32.1	25.1
Prepaid cards	16.4	25.0	13.7	11.0	10.0
Total	23.2	35.7	23.4	18.9	14.9



Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

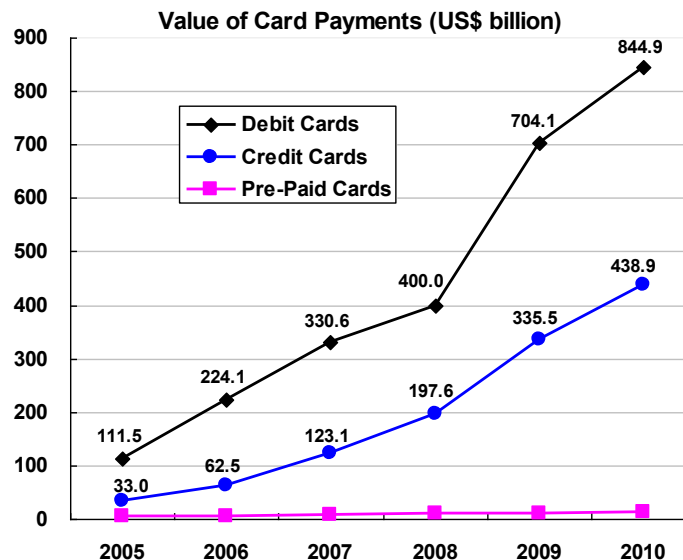
EXHIBIT 12: VALUE OF FINANCIAL CARD TRANSACTIONS IN CHINA

Type of Transactions	Value of Financial Card Transactions (US\$ billion) ¹					
	2005	2006	2007	2008	2009	2010
ATM transactions	331	386	578	801	1,021	1,174
Card payments	149	293	462	608	1,051	1,297
Total	480	678	1,040	1,408	2,072	2,471
	Breakdown of Value of Card Payments (US\$ billion)					
Debit cards	111.5	224.1	330.6	400.0	704.1	844.9
Credit cards	33.0	62.5	123.1	197.6	335.5	438.9
Prepaid cards	4.6	6.2	8.0	9.9	11.3	12.9

¹ The original data was denoted in Rmb. US\$1 = Rmb 6.5872 on 31 December 2010.

Type of Payments	Breakdown of Value of Card Payments (% of Total)					
	2005	2006	2007	2008	2009	2010
Debit cards	74.8	76.6	71.6	65.9	67.0	65.2
Credit cards	22.1	21.3	26.7	32.5	31.9	33.8
Prepaid cards	3.1	2.1	1.7	1.6	1.1	1.0
Total	100	100	100	100	100	100

Type of Payments	Growth in Value of Card Payments (%)				
	2006	2007	2008	2009	2010
Debit cards	101.0	47.5	21.0	76.0	20.0
Credit cards	89.5	97.0	60.5	69.8	30.8
Prepaid cards	34.4	29.8	23.1	14.9	14.1
Total	96.4	57.7	31.6	73.0	23.4



Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

EXHIBIT 13: NUMBER OF FINANCIAL CARDS BY OPERATOR IN CHINA

Card Operator	Number of Financial Cards (million)				
	2005	2006	2007	2008	2009
China UnionPay Co Ltd	919.4	1,086.7	1,394.2	1,659.4	1,891.4
Visa Inc	20.5	22.8	35.6	52.9	67.6
MasterCard International Inc	15.5	16.9	28.5	43.6	55.9
Shanghai Public Transportation Card Co	18.2	20.0	24.6	34.6	42.0
Beijing Municipal Administration & Communications Card Co Ltd	8.6	10.7	16.2	20.3	23.0
Guangzhou Yang Cheng Tong Co Ltd	5.0	5.6	7.2	11.0	12.0
Nanjing Public Utility IC Card Co Ltd	2.6	3.0	3.2	4.3	5.0
Wuhan Public Transport Group Co Ltd	1.3	1.5	1.6	2.7	2.9
Hangzhou Public Transport Group Co Ltd	1.5	1.8	2.0	2.2	2.4
Tianjin IC Card Public Network System Co Ltd	0.9	1.2	1.6	2.2	2.3
Others	63.9	78.8	86.3	92.6	97.7
Total	1,057.4	1,249.1	1,601.1	1,925.7	2,202.4

Card Operator	Number of Financial Cards (% of Total)				
	2005	2006	2007	2008	2009
China UnionPay Co Ltd	86.9	87.0	87.1	86.2	85.9
Visa Inc	1.9	1.8	2.2	2.7	3.1
MasterCard International Inc	1.5	1.4	1.8	2.3	2.5
Shanghai Public Transportation Card Co	1.7	1.6	1.5	1.8	1.9
Beijing Municipal Administration & Communications Card Co Ltd	0.8	0.9	1.0	1.1	1.0
Guangzhou Yang Cheng Tong Co Ltd	0.5	0.4	0.4	0.6	0.5
Nanjing Public Utility IC Card Co Ltd	0.2	0.2	0.2	0.2	0.2
Wuhan Public Transport Group Co Ltd	0.1	0.1	0.1	0.1	0.1
Hangzhou Public Transport Group Co Ltd	0.1	0.1	0.1	0.1	0.1
Tianjin IC Card Public Network System Co Ltd	0.1	0.1	0.1	0.1	0.1
Others	6.0	6.3	5.4	4.8	4.4
Total	100	100	100	100	100

Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

EXHIBIT 14: VALUE OF CARD PAYMENT TRANSACTIONS BY OPERATOR IN CHINA

Card Operator	Value of Card Payment Transactions (US\$ million) ¹				
	2005	2006	2007	2008	2009
China UnionPay Co Ltd	118,599	240,633	370,439	466,974	820,232
Visa Inc	14,416	28,457	50,785	78,620	131,458
MasterCard International Inc	10,468	16,379	30,726	48,943	82,306
American Express Co	738	616	796	1,351	2,733
JCB Co Ltd	62	349	774	1,518	2,581
Shanghai Public Transportation Card Co	873	961	1,286	1,867	2,277
Beijing Municipal Administration & Communications Card Co Ltd	326	360	489	665	820
Guangzhou Yang Cheng Tong Co Ltd	276	309	411	607	714
Nanjing Public Utility IC Card Co Ltd	140	168	225	304	380
Others	3,174	4,570	5,827	6,663	7,415
Total	149,072	292,801	461,757	607,513	1,050,915

Card Operator	Value of Card Payment Transactions (% of Total)				
	2005	2006	2007	2008	2009
China UnionPay Co Ltd	79.56	82.18	80.22	76.87	78.05
Visa Inc	9.67	9.72	11.00	12.94	12.51
MasterCard International Inc	7.02	5.59	6.65	8.06	7.83
American Express Co	0.49	0.21	0.17	0.22	0.26
JCB Co Ltd	0.04	0.12	0.17	0.25	0.25
Shanghai Public Transportation Card Co	0.59	0.33	0.28	0.31	0.22
Beijing Municipal Administration & Communications Card Co Ltd	0.22	0.12	0.11	0.11	0.08
Guangzhou Yang Cheng Tong Co Ltd	0.18	0.11	0.09	0.10	0.07
Nanjing Public Utility IC Card Co Ltd	0.09	0.06	0.05	0.05	0.04
Others	2.13	1.56	1.26	1.10	0.71
Total	100	100	100	100	100

¹ The original data was denoted in Rmb. US\$1 = Rmb 6.5872 on 31 December 2010.

Source: Global Market Information Database (29 November 2010) "Financial Cards and Payments in China—Industry Overview" (accessed 17 February 2012).

EXHIBIT 15: CORPORATE OVERVIEW OF VISA INC

	Statistics¹ / Description	
Number of institutional clients	15,300	
Number of Visa cards	1.9 billion (as of 30 June 2011)	
Total transaction value	US\$5.9 trillion (includes payments and cash transactions)	
Payment value	US\$3.7 trillion	
Number of ATMs	1.9 million (as of 30 June 2011)	
Total number of transactions	76 billion (includes payments and cash transactions)	
Core products	Credit cards	Visa
	Debit cards	Four branded debit cards: Visa, Visa Electron, Interlink, and PLUS [®]
	Prepaid cards	Include reloadable general purpose cards, gift cards, payroll cards, employee benefit/healthcare cards, travel cards, government disbursement products, etc.
	Commercial payment	<ul style="list-style-type: none"> • For small businesses: Visa Business credit, Visa Business debit, Visa Business line of credit access cards. • For mid-size/large businesses and governments: Visa Corporate, Visa Purchasing, Visa Commercial, Visa Meetings, Visa Fleet, Visa Distribution, Visa Intellilink, and B2B and supply chain management products.

¹ The figures in the table were as of 30 September 2011 unless otherwise stated. They did not include the data of Visa Europe, which was a separate company from Visa Inc.

Source: Visa Inc (2011) "Visa Inc. Corporate Overview", http://corporate.visa.com/_media/visa-corporate-overview.pdf (accessed 24 February 2012).

EXHIBIT 16A: FINANCIAL PERFORMANCE OF VISA INC

Year ended September 30	(US\$ million)			
	2008	2009	2010	2011
Operating revenues	6,263	6,911	8,065	9,188
Operating expenses	5,031	3,373	3,476	3,732
Operating income	1,232	3,538	4,589	5,456
Net income attributable to Visa Inc	804	2,353	2,966	3,650
Class A Common Stock	(US\$)			
Basis earnings per share	0.96	3.10	4.03	5.18
Diluted earnings per share	0.96	3.10	4.01	5.16

Source: Visa Inc (2011) "Annual Report: Form 10-K".

EXHIBIT 16B: REVENUE BREAKDOWN OF VISA INC

Year ended September 30	Revenue Breakdown (US\$ million)			
	2008	2009	2010	2011
Service revenues	3,061	3,174	3,497	4,261
Data processing revenues	2,073	2,430	3,125	3,478
International transaction revenues	1,721	1,916	2,290	2,674
Other revenues	569	625	713	655
Sub-total	7,424	8,145	9,625	11,068
Client incentives	(1,161)	(1,234)	(1,560)	(1,880)
Total operating revenues	6,263	6,911	8,065	9,188

Year ended September 30	Revenue Breakdown (% of Sub-total)			
	2008	2009	2010	2011
Service revenues	41.2	39.0	36.3	38.5
Data processing revenues	27.9	29.8	32.5	31.4
International transaction revenues	23.2	23.5	23.8	24.2
Other revenues	7.7	7.7	7.4	5.9
Sub-total	100	100	100	100

Source: Visa Inc (2009-2011) "Annual Report: Form 10-K".

EXHIBIT 17: MILESTONES OF CHINA UNIONPAY

Date		Milestones
2002	Mar	CUP was founded.
2003	Jan	Bankcard interoperability was achieved in places above prefecture and city levels in China.
	Aug	Nanjing Commercial Bank issued the first CUP credit card according to the international BIN code system, beginning with 62 as the first two numbers.
2004	Jan	CUP made its first step to go global by launching operations of POS transactions, ATM inquiry and withdrawal for mainland-issued, Rmb-denominated CUP cards in Hong Kong.
	Dec	CUP launched a self-designed, national card payment processing system.
2005	Jan	CUP cards were accepted overseas for the first time at ATM and POS terminals. The countries were Singapore, Thailand and South Korea.
	Sept	CUP partnered with Citigroup to allow acceptance of CUP cards in Citigroup's global ATM network.
	Dec	CUP partnered with Discover Inc to allow acceptance of CUP cards at ATMs in North America.
	Dec	CUP partnered with EUFISERV to allow acceptance of CUP cards at ATMs in European countries, including Germany, France, Spain, Belgium and Luxembourg.
2007	Mar	Top Chinese officials showed support to CUP for developing an international bankcard brand. Later in the year, CUP set up its payment processing network outside the mainland for processing transactions in foreign currencies.
	Dec	CUP launched its first credit card denominated in foreign currency overseas. This card was issued in Japan by Sumitomo Mitsui Card Company.
2008	May	The Bank of East Asia (China) issued the first CUP debit card denominated in Rmb. It was the first non-mainland bank allowed to issue Rmb-denominated bankcards.
2009	Apr	CUP partnered with Lebanon CSC Company, a regional bankcard network organisation, to allow acceptance of CUP cards at ATMs in nine countries in the Middle East and Africa.
	Dec	CUP partnered with Standard Chartered Bank ("SCB") to allow acceptance of CUP cards in SCB's global ATM network.
	Dec	CUP partnered with HSBC to allow acceptance of CUP cards at HSBC's ATMs in eight Asian countries: Bangladesh, Mauritius, Maldives, Thailand, Vietnam, Sri Lanka, Singapore and Brunei.
2010	Aug	CUP launched a cross-border payment business between Shenzhen and Hong Kong.
	Sept	CUP launched a pilot initiative for contactless mobile phone payment.
	Jan - Dec	CUP surpassed Visa as the world's largest EPS provider in terms of number of cards.
2011	May	CUP launched its first dual-currency credit card overseas. This card was issued by Bank of China for corporate customers in Hong Kong.
	Jul	CUP launched its first dual-currency debit card overseas. This card was issued by Bank of China in Thailand.
	Oct	CUP launched its first dual-currency platinum credit card overseas. This card was issued by Sumitomo Mitsui Card Company in Japan.

Note: CUP's partnerships for card acceptance in individual countries were not included above.

Source: China UnionPay, "Milestones", http://en.unionpay.com/front_InfoCom_en.html (accessed 15 March 2012).

EXHIBIT 18: LOGO OF CHINA UNIONPAY AND SAMPLE OF UNIONPAY CARD

China UnionPay Logo



UnionPay Card

EXHIBIT 19: COMPARISON OF THE PAYMENT SETTLEMENT SYSTEMS OF CHINA UNIONPAY, VISA AND MASTERCARD

	Regions or Countries Offering Settlement	Fees for Currency Settlement	Currency Settlement Process	Exchange Rate Used for Payment Settlement
China UnionPay	117 ¹	Free of charge	Direct conversion from the local currency to Rmb	Based on the same-day exchange rate set by China's State Administration of Foreign Exchange
Visa	Over 200	1–2% of the transaction amount	Conversion from the local currency to US dollars and then to Rmb	Based on a self-set exchange rate after collecting rates from major foreign exchange markets
MasterCard	Over 200	1–2% of the transaction amount	Conversion from the local currency to US dollars and then to Rmb	Based on a self-set exchange rate after collecting rates from major foreign exchange markets

¹ The original figure in the quoted source was over 90. This was replaced by 117 quoted on the corporate website of China UnionPay, accessed on 15 March 2012.

Source: Zhang, W. (13 June 2010) "Visa Vs. China UnionPay", *CRI*, <http://english.cri.cn/8706/2010/06/07/1721s575246.htm> (accessed 27 February 2012).

**EXHIBIT 20: MAJOR EVENTS RELATED TO THE WTO DISPUTE AND THE SPAT
BETWEEN VISA AND CUP**

Date		Major Events
2001	Dec	China acceded to the WTO.
2006	End of Dec	Deadline for China to allow full access to its financial market by foreign companies. But its electronic payment services ("EPS") market for transactions denominated in Rmb remained closed to foreign companies after this deadline.
2007		CUP established its own payment network outside the Chinese mainland for processing transactions in foreign currencies.
2009	Around Oct	Visa warned CUP to stop processing international transactions for co-branded cards through CUP's payment network rather than Visa's.
2010	Late Mar	US trade officials conducted talks with Visa, MasterCard and American Express over the possibility of taking actions against China for excluding foreign companies from its EPS market for transactions denominated in Rmb.
	June	Visa required Chinese banks to process international transactions outside China only through Visa's payment system rather than CUP's. It would start charging penalties from 1 August 2010 for non-compliance.
	Sept 14	CUP signed a memorandum of cooperation with MasterCard Inc.
	Sept 15	The United States requested consultations with China in a WTO dispute over China's policies for the local EPS market.
2011	Feb 24	The United States requested the creation of a WTO panel to review China's policies for the local EPS market.
	June	BC Card, CUP's business partner in South Korea, filed an antitrust complaint against Visa with the country's Fair Trade Commission over Visa's practice of requesting BC Card to process all international transactions only through Visa's payment network.
	July 4	The composition of the WTO panel was finalised.
2012	Jan 9	The chairman of the WTO panel notified the Dispute Settlement Body that it would not be able to issue its report within the original schedule of six months. The timeline of submitting the final report to the parties was revised to May 2012.

EXHIBIT 21: DESCRIPTION OF THE WTO COMPLAINT FILED BY THE UNITED STATES

Short title: China — Electronic Payment Services

Complainant: United States

Respondent: China

Third parties: Australia; Ecuador; European Union; Guatemala; Japan; Republic of Korea;
India

Agreements cited: GATS: Art. XVI, XVI:1, XVI:2(a), XVII

Summary of the dispute:

On 15 September 2010, the United States requested consultations with China with respect to “certain restrictions and requirements maintained by China pertaining to electronic payment services for payment card transactions and the suppliers of those services”.

The United States alleged that China permits only a Chinese entity (China UnionPay) to supply electronic payment services for payment card transactions denominated and paid in renminbi in China. Service suppliers of other Members can only supply these services for payment card transactions paid in foreign currency. China also requires all payment card processing devices to be compatible with that entity's system, and that payment cards must bear that company's logo. It further argued that the Chinese entity has guaranteed access to all merchants in China that accept payment cards, while services suppliers of other Members must negotiate for access to merchants.

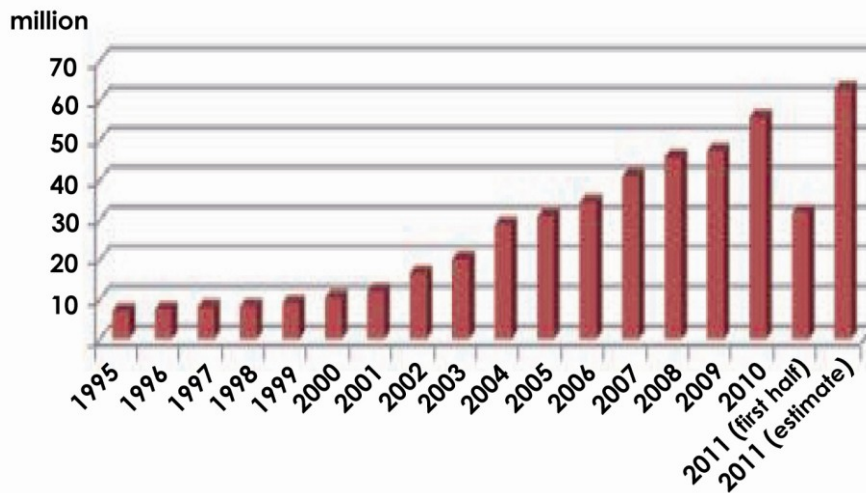
The United States alleged that China appears to be acting inconsistently with its obligations under Articles XVI and XVII of the GATS.

Source: World Trade Organization, “Dispute Settlement: Dispute DS413”,
http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds413_e.htm (accessed 28 February 2012).

EXHIBIT 22: MAJOR PARTNERSHIPS FORMED BY CUP FROM JANUARY 2010 TO FEBRUARY 2012

Region	Country	Bank or Partner	Product or Agreement
Global		Société Generale	Global card acquiring agreement
		MasterCard Inc	Memorandum of Cooperation
Asia	Japan	Sumimoto Mitsui Card	Platinum dual-currency credit card (Rmb and yen)
	South Korea	BC Card Company	Credit card issuance
	Hong Kong	Bank of China	Dual-currency corporate credit card
		HSBC	Dual-currency credit card
	Thailand	Bank of China	Dual-currency debit card
	Philippines	DBO Bank	Dual-currency credit card and merchant acceptance
	Vietnam	Vietcombank	Debit and credit card issuance
		Sacombank	ATM and Merchant acceptance; issuance of debit and prepaid cards
	Pakistan	ILink and Faisal Bank	ATM and Merchant acceptance
	Indonesia	Indonesia Bank Central Asia	Merchant acceptance
		Bukopin Bank	Merchant acceptance
Taiwan	Financial Information Service Company Limited	ATM acceptance	
Europe	Spain	Sistema 4B and Euro6000	Merchant acceptance
	Switzerland	SIX Multipay	Merchant acceptance
	Hungary	OTP Bank	Merchant acceptance
Americas	Canada	BMO	Merchant acceptance
	Brazil	Redecard/Itau Unibanco	Merchant acceptance
Africa	Ethiopia	Dashen Bank	Merchant acceptance
	Kenya	Equity Bank	ATM and Merchant acceptance
	Egypt, Sudan and South Africa	(Data not available)	ATM acceptance
Middle East	United Arab Emirates	Network International (Emirates NBD)	Merchant acceptance

Source: China UnionPay, "Milestones", http://en.unionpay.com/front_InfoCom_en.html (accessed 15 March 2012).

EXHIBIT 23: NUMBER OF CHINESE OUTBOUND TRAVELLERS

Source: China Outbound Tourism Research Institute, “Chinese Outbound Tourism Statistics”, http://www.china-outbound.com/index.php?option=com_content&view=article&id=179 (accessed 20 April 2012).

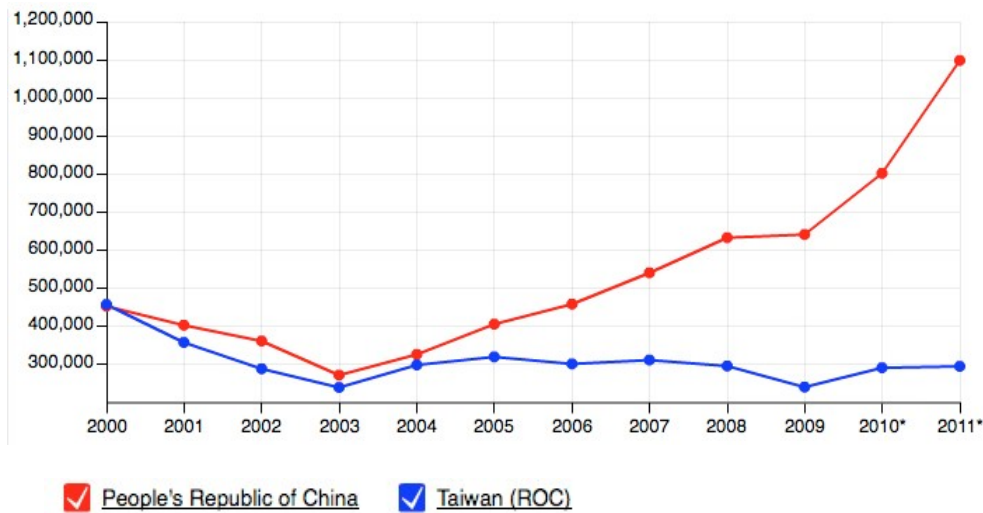
EXHIBIT 24: STATISTICS OF CHINA'S TOURISM INDUSTRY

	2011 (Estimate)		Year-on-Year Growth (%)
Total tourism income	Rmb 2.15 trillion	US\$326 million ¹	17
Domestic tourism income	Rmb 1.85 trillion	US\$281 million ¹	20
Number of outbound travellers	65 million		15
Number of inbound travellers	136 million		1.5

	2011		Year-on-Year Growth (%)
	First Half	Whole Year (Estimate)	
Tourism income from inbound travellers in foreign exchange	US\$22.4 billion	US\$47 billion	2.5
Tourism expenses by outbound travellers	US\$33.1 billion	NA	NA
Trade deficit of tourism services	US\$10.7 billion	NA	NA

¹ US\$1 = Rmb 6.5872 on 31 December 2010.

Source: China Outbound Tourism Research Institute (7 November 2011) “China Soaring Towards New Tourism Records”, <http://www.chinatraveltrends.com/2011/11/china-soaring-towards-new-tourism-records-more-than-2-billion-domestic-and-over-50-million-outbound-travellers-in-the-first-nine-months-of-2011> (accessed 20 April 2012).

EXHIBIT 25: NUMBER OF CHINESE TRAVELLERS TO THE UNITED STATES

Note: The figures for the People's Republic of China from 2000 to 2009 included the data for Hong Kong, but not for 2010 and 2011.

Original source of data: US Office of Travel and Tourism Industries

Source: Yuan, M. (14 March 2012) "Speeding US Economic Recovery with Chinese Tourists", *Chinese Tourist*, <http://chinesetourists.wordpress.com/category/united-states> (accessed 20 April 2012).

EXHIBIT 26: TOP 10 MARKETS FOR INBOUND VISITORS TO THE UNITED STATES

	Region / Country	Number of Inbound Visitors		Growth (%)
		2010	2011	2011
1	Canada	19,964,000	21,028,000	5.3
2	Mexico	13,469,000	13,414,000	(0.4)
3	United Kingdom	3,850,864	3,835,300	(0.4)
4	Japan	3,386,076	3,249,569	(4.0)
5	Germany	1,726,193	1,823,797	5.7
6	Brazil	1,197,866	1,508,279	25.9
7	France	1,342,207	1,504,182	12.1
8	South Korea	1,107,518	1,145,216	3.4
9	People's Republic of China	801,738	1,089,405	35.9
10	Australia	904,247	1,037,852	14.8

Source: International Trade Administration, US Department of Commerce (2011) "International Visitation to the United States: A Statistical Summary of U.S. Visitation (2011)", http://tinet.ita.doc.gov/outreachpages/download_data_table/2011_Visitation_Report.pdf (accessed 20 April 2012).

EXHIBIT 27: INTERCHANGE RATES FOR CREDIT CARD TRANSACTIONS BY COUNTRY (AVERAGE FOR 2007 TO 2009)

Original source: Bemstein Research

Source: Freed, D. (12 January 2012) "Massive Credit Card Antitrust Case Looms over Banks", *Mainstreet*, <http://www.mainstreet.com/article/moneyinvesting/credit/debt/massive-credit-card-antitrust-case-looms-over-banks?page=2> (accessed 20 April 2012).