



Public Competition Assessment

28 September 2010

Jetset Travelworld Limited – proposed acquisition of Stella Travel Services Holdings Pty Ltd

Introduction

1. On 1 September 2010, the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose the proposed acquisition of Stella Travel Services Holdings Limited (**Stella**) by Jetset Travelworld Limited (**Jetset**) (**proposed acquisition**). The ACCC was of the view that the proposed acquisition would be unlikely to have the effect of substantially lessening competition in any relevant market and would therefore be unlikely to contravene section 50 of the *Trade Practices Act 1974* (the **Act**).
2. The ACCC formed its view on the basis of the information provided by the merger parties and information arising from its market inquiries. This Public Competition Assessment outlines the basis on which the ACCC has reached its decision on the proposed acquisition, subject to confidentiality considerations.

Public Competition Assessment

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:
 - a merger is opposed;
 - a merger is subject to enforceable undertakings;
 - the merger parties seek such disclosure; or
 - a merger is not opposed but raises important issues that the ACCC considers should be made public.
4. This Public Competition Assessment has been issued because the proposed acquisition was not opposed by the ACCC but raised important issues that the ACCC considers should be made public.
5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the public to circumstances where developments in particular markets have led, or are likely to

lead, to changes in the ACCC's assessment of competition conditions in those markets.

6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.
7. Public Competition Assessments outline the ACCC's principal reasons for forming views on a proposed acquisition at the time the decision was made. As such Public Competition Assessments may not definitively identify and explain all issues that the ACCC considers arise from a proposed acquisition. Further, the ACCC's decisions generally involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources.

The parties

Jetset Travelworld Limited

8. Jetset is an ASX-listed company that operates one of Australia's largest integrated travel businesses. Its major shareholders include Qantas Airways Limited (**Qantas**) with 58% and Sintack Pty Ltd (**Sintack**) with 24.68%.¹
9. Jetset's extensive 'bricks and mortar' retail travel network consists of over 640 branded franchisee and non-branded affiliate member stores. As a franchisor, Jetset provides members with the permission to trade under its *Jetset* and *Travelworld* brands as well as access to preferred supplier relationships, network/advertising support and ticketing systems. In addition, Jetset provides some buying groups access to its preferred supplier relationships, giving retail outlets that are members of these buying groups access to Jetset-negotiated buying terms for certain travel content.
10. In addition to its 'bricks and mortar' retail network, Jetset operates the www.jetset.com.au and www.travelworld.com.au websites and two separate retail websites, ReadyRooms.com and ReadyFlights.com, which allow customers to book and pay for a range of domestic and international accommodation and flights online.
11. At the wholesale level, Jetset compiles international and domestic travel packages and tours and distributes them to franchisees, non-branded affiliate stores and third party retailers under a number of brands including *Qantas Holidays* and *Viva! Holidays*. In addition, Jetset provides air ticket consolidation services to retailers through its wholly owned subsidiary, National Ticket Centre (**NTC**).

¹ As at 13 August 2009, Jetset Travelworld *Annual Report* 2009, p. 93.

12. Jetset operates Qantas Business Travel, which provides corporate travel management services to large corporate and government clients. In addition, franchisees trading under Jetset's *Business Select* brand specialise in the provision of corporate travel services to small and medium sized businesses.

Stella Travel Services Holdings Pty Ltd

13. Stella is a private integrated travel company predominantly operating in Australia and New Zealand. It is currently majority owned and controlled by funds advised by CVC Asia Pacific.
14. Stella operates an extensive 'bricks and mortar' retail network consisting of over 1,500 retail outlets in Australia, including approximately 700 franchisee stores operating under the *Harvey World Travel* and *Travelscene American Express* brands. In addition to its 'bricks and mortar' retail network, Stella operates websites for each of Harvey World Travel and Travelscene American Express, which allow direct online bookings for a limited range of products, and two separate retail websites Best Flights and Best Cruises. Stella also provides some buying groups access to its preferred supplier relationships, giving retail outlets that are members of these buying groups access to Stella-negotiated buying terms for certain travel content.
15. At the wholesale level, Stella compiles international travel packages and travel components and tours under a number of brands including *Travel2*, in-house wholesalers *Travescene Holidays* and *Harvey's Choice Holidays* (50% owned by Qantas), and other specialist brands such as *Travel Indochina*. Stella distributes these wholesale products to franchisees, non-branded affiliate stores and third party retailers.
16. Stella provides air ticket consolidation services through its wholly owned subsidiary, Air Tickets and corporate travel management services in Australia through Atlantic Pacific Travel and its *Travelscene Corporate* brand.

Other industry participants

Flight Centre Limited

17. Flight Centre Limited (**Flight Centre**) is one of Australia's largest integrated retail leisure and corporate travel businesses, with more than 2000 shops and businesses in 11 countries: Australia, New Zealand, the United States, Canada, the United Kingdom, South Africa, Hong Kong, India, China, Singapore and Dubai. Unlike Jetset and Stella, Flight Centre's 'bricks and mortar' retail network principally consists of stores that are owned by Flight Centre itself, rather than stores that are operated by franchisees and affiliates. As a consequence, with the exception of a small number of franchise stores, Flight Centre only provides access to its preferred supplier relationships, wholesale travel packages and tours to its own retail outlets.
18. Flight Centre's corporate travel management operations consist of FCm Travel Solutions. The company's other leisure, corporate and wholesale brands include Escape Travel, Travel Associates, Student Flights, quickbeds.com, Stage &

Screen Travel and Freight Services, Kistend and Campus Travel, CiEvents, Infinity Holidays and Overseas Working Holidays.

Consolidated Travel

19. Consolidated Travel is the largest privately owned and operated ticket consolidator in Australia. It provides ticket and other travel-related services and facilities to over 4,000 retail travel agents.
20. Relevantly, the beneficial owner of Consolidated Travel, Mr Spiros Alysandratos, also currently holds the following interests:
 - a 24.68% shareholding in Jetset via Sintack; and
 - a 50% shareholding in the Orient Express Travel Group.

Orient Express Travel Group

21. The Orient Express Travel Group is a vertically integrated travel company with operations in travel retail, wholesale and air ticket consolidation in Australia.

Industry background

22. Travel products and services originate with content providers, such as airlines, hotels, car rental and tour companies, and are supplied to consumers both directly by content providers and via a number of intermediaries, such as retail travel agents, wholesalers and ticket consolidators.
23. Travel wholesalers package together the various components of a holiday in a particular destination, negotiating bulk rates from travel content suppliers and marketing the package to end customers via retailers. Holiday packages generally give the traveller independence once at the destination, whereas tours are escorted and provide less flexibility in terms of itineraries and activities.
24. Ticket consolidators act as an intermediary between airlines and travel agents. Airlines offer fares through ticket consolidators to avoid dealing with multiple retailers on an individual basis. Retailers use ticket consolidators to gain access to volume discounts and rebates that may not be available when dealing directly with airlines.
25. Traditional ‘bricks and mortar’ retail travel agents still account for the majority of total travel products and services sold in Australia, particularly for sales of pre-packed holidays and tours, and international flight bookings. However, there has also been significant growth in sales of leisure travel products and services over the Internet, both via online retailers and directly via content supplier websites.

ACCC review timeline

26. The following table outlines the timeline of key events in this matter.

Date	Event
14 May 2010	ACCC commenced review under the Merger Review Process Guidelines.
25 May 2010	ACCC requested further information from the merger parties. ACCC timeline suspended.
4 June 2010	Closing date for submissions from interested parties.
9 June 2010	ACCC received a partial response to its information request of 25 May 2010 from the merger parties. ACCC requested further additional information from the merger parties. Former proposed date for announcement of ACCC's findings of 24 June 2010 amended to allow the merger parties to provide the information requested.
16 July 2010	ACCC received all outstanding information requested from the merger parties. ACCC timeline recommenced.
21 July 2010	ACCC published a Statement of Issues outlining preliminary competition concerns.
12 August 2010	Closing date for submissions relating to Statement of Issues.
1 September 2010	ACCC announced it would not oppose the proposed acquisition.

Market inquiries

27. The ACCC conducted extensive market inquiries in relation to the proposed acquisition with a range of interested parties, including retailers, buying groups, wholesalers, content providers (such as airlines and hotels), industry associations and regulatory bodies.

Statement of Issues

28. On 21 July 2010, the ACCC published a Statement of Issues regarding the proposed acquisition. The Statement of Issues identified three issues arising with respect to the proposed acquisition categorised as issues that may raise concerns requiring further investigation prior to the ACCC forming a concluded view. Three further issues were categorised as issues that are unlikely to pose concerns.
29. The ACCC's preliminary view was that the proposed acquisition may raise competition concerns in relation to:
- the retail supply of leisure travel products in Australia.
 - the wholesale supply of travel packages and tours in Australia; and
 - the wholesale supply of air ticket consolidation services in Australia.
30. The ACCC's preliminary view was that the proposed acquisition was unlikely to pose competition concerns with respect to:
- the retail supply of corporate travel management services in Australia;
 - the increased vertical integration by Qantas into retail distribution; and
 - the supply of domestic and international air travel services.

31. The Statement of Issues is available on the ACCC's website at www.accc.gov.au/statementsofissues.

Areas of overlap and market definition

32. The operations of Jetset and Stella overlap in relation to the retail distribution of travel products and services throughout Australia, both direct to end users via their online operations and some wholly owned 'bricks and mortar' retail stores, and via franchisees, non-branded affiliated stores and independent retail outlets that are members of various buying groups. On behalf of these franchisees, retail affiliates and retail outlets that are members of various buying groups, Jetset and Stella negotiate terms and conditions of supply with travel content suppliers (for example, airlines, coaches, hotels and tour operators). Jetset and Stella market their retail brands and the products of their preferred travel content suppliers to end customers. In addition, Jetset and Stella market their wholesale travel packages, tours and air ticket consolidation services to retailers.

Market definition

33. The ACCC considered the proposed acquisition in the context of the following markets:
- the retail supply of leisure travel products in Australia;
 - the retail supply of corporate travel management services in Australia;
 - the wholesale supply of travel packages and tours in Australia;
 - the wholesale supply of air ticket consolidation services in Australia; and
 - various markets for the supply in Australia of domestic and international air travel services.
34. Given the varying degrees of vertical integration among the merger parties and other market participants, and the presence of participants that only operate at one functional level of the supply chain, the ACCC took a purposive approach and considered the proposed acquisition in the context of separate markets for each of the relevant functional levels of the supply chain.
35. The ACCC identified separate retail markets for leisure travel products and corporate travel management services respectively. The ACCC found that the supply of corporate travel management services (particularly corporate travel management services for large clients) involves different customers and suppliers to leisure travel customers and suppliers, and demand- and supply-side substitution between leisure and corporate travel management services is limited.
36. With respect to the national retail market for the supply of leisure travel products, taking a purposive approach based on the overlap between the operations of the merger parties, the ACCC considered that the retail market would likely include traditional 'bricks and mortar' retailers, online retailers and direct retail supply by travel content suppliers. However, the ACCC noted that the degree to which online retailers and direct retail supply by travel content suppliers are close

substitutes for ‘bricks and mortar’ retailers is likely to vary to some extent among different customers.

37. With respect to this retail market, the ACCC considered that it would include suppliers operating under a range of different retail business models including wholly-owned businesses, franchises, buying groups and independent agents. While Jetset and Stella do not own and control each store within their respective networks, the ACCC found that they have considerable influence over the pricing and product range decisions of franchise and affiliated retail stores, given their role in negotiating terms and conditions of supply, and providing marketing and other support services to their respective networks.
38. While ‘bricks and mortar’ retailers are likely to compete on a local basis, the ACCC considered the geographic dimension of the relevant retail market to be national, given that customers are able to make bookings over the internet or over the telephone with agents and travel content suppliers located anywhere in Australia. The ACCC also found that the geographic dimension of the other relevant markets was likely to be national since suppliers in each market do not need a physical ‘shop front’ presence in order to compete.
39. Given the significant shareholding Qantas would have in the merged firm, the ACCC considered that various markets for the supply of domestic and international air travel services were also relevant markets for the purposes of assessing the competition impact of the proposed acquisition.

Competition analysis

40. The ACCC considered that the proposed acquisition is unlikely to substantially lessen competition in any of the relevant markets for the reasons outlined below.

Retail supply of leisure travel products

41. The retail networks of Jetset and Stella (including corporate-owned, franchise and affiliated retail stores) are two of the three largest ‘bricks and mortar’ retail store networks in Australia (the other being Flight Centre) and together account for a significant share of retail sales of leisure travel products and services.
42. The ACCC’s preliminary view was that the proposed acquisition may enable the merged firm to extract more favourable terms from its preferred suppliers and retail members, while at the same time reducing competitive pressure to pass on any such benefits to end consumers. The ACCC conducted further inquiries focusing on the extent of competition from other ‘bricks and mortar’ retailers, online agents, direct distribution and potential new entrants. During the course of these inquiries, the ACCC explored whether these competitive constraints would collectively be sufficient to ensure that the merged firm would not, as a result of the proposed acquisition, be able to increase prices, reduce its product range or decrease its levels of service.
43. The ACCC considered that online and direct distribution appear likely to constrain the ‘bricks and mortar’ operations of the merged firm and Flight Centre. A significant proportion of leisure travel content in Australia is supplied directly

to end-customers by travel content suppliers, mainly via travel content supplier websites, and by online agents. Online agents have exhibited very strong growth in recent years and continued developments in online technology are expected to provide new and improved ways for travel content suppliers to reach end-customers directly. The ACCC considered that these growing distribution channels are likely to provide customers with a means of bypassing the retail outlets affiliated with the merged firm and Flight Centre. Accordingly, the merged firm is likely to face continued pressure to maximise choice and minimise prices to end-customers.

44. While higher proportions of travel packages and international flights continue to be supplied via traditional bricks and mortar agencies than other travel content, market inquiries indicated that:
- a small but increasing proportion of customers are independently compiling packages directly from content suppliers;
 - independent agents (including some of the merger parties' agents) can obtain content from wholesalers and content suppliers outside of their arrangements with the merged firm; and
 - major international carriers have sufficient means of bypassing the merged firm to access customers.
45. While Jetset and Stella currently compete for franchise and affiliate member stores to expand the volumes of travel content passing through their respective head offices (on which they earn commission), the ACCC took the view that the threat of losing volume to Flight Centre, online retailers and direct distribution would also ensure that the merged firm continues to support its franchisees and affiliates. Further, there do not appear to be significant barriers to entry on a small scale at the retail level and some retailers have demonstrated success in breaking away from the Jetset and Stella retail networks to form rival buying groups. These continued imperatives to grow volume through the merged firm's store network indicate that the proposed acquisition is unlikely to result in a substantial lessening of competition in the leisure retail travel market.
46. The ACCC's further inquiries indicated that the proposed acquisition was unlikely to result in a significant and sustained increase in the end prices paid by leisure travellers or reduce the range of products and services available to end customers. Accordingly, the ACCC found that the proposed acquisition was unlikely to substantially lessen competition in the retail supply of leisure travel products in Australia.

Wholesale supply of travel packages and tours

47. Jetset and Stella account for a relatively small proportion of all travel packages sold by wholesalers to retailers in Australia. Both predominantly supply wholesale travel packages to their affiliated retail networks. The ACCC therefore concluded that the proposed acquisition was unlikely to raise horizontal competition concerns.

48. The ACCC's preliminary concerns in relation to the wholesale market were predicated on the merged firm obtaining market power with respect to the retail distribution of travel packages and tours and leveraging that market power to foreclose wholesale competitors and lessen wholesale competition. In particular, the ACCC investigated whether the merged firm would have the ability or incentive to reduce the extent to which travel packages and tours of its competitors would be distributed via its retail network, and if so, whether this would weaken the merged firm's wholesale competitors to the point of substantially lessening competition in the wholesale market.
49. The ACCC recognised that large retailers and retail buying groups are an important distribution channel for wholesalers and, with its large retail network of wholly-owned, franchise and affiliated stores, the merged firm would represent an attractive distribution option for many wholesalers. The ACCC found that the merged firm's product range would not be sufficient to remove its reliance on third party wholesale suppliers and accordingly, many wholesale suppliers are likely to continue to obtain distribution via the merged firm. Further, with respect to wholesalers that directly compete with the merged firm's wholesale products, the ACCC found that any foreclosure by the merged firm would be unlikely to result in a substantial lessening of competition in the wholesale market. The ACCC took the view that:
- wholesalers can bypass the merged firm by negotiating arrangements with rival buying groups or supplying direct to members of the merged firm's retail network;
 - wholesalers increasingly market and supply their products direct to end-customers using online technologies; and
 - continued competitive pressure at the retail level will give the merged firm and Flight Centre a strong incentive to offer a range of travel packages and tours, including products that best meet the needs and preferences of end-customers.
50. As discussed above, the ACCC took the view that the proposed acquisition was not likely to substantially lessen competition in the retail market and accordingly, concluded that the proposed acquisition was unlikely to lead to a substantial lessening of competition in the wholesale market.

Air ticket consolidation services

51. Jetset, through its air ticket consolidation business NTC, and Stella, through its air ticket consolidation business Air Tickets, account for a significant proportion of air ticket consolidation services provided in Australia. Retailers within and outside of the merged firm's retail network would obtain air ticket consolidation services from the merged firm in order to gain access to volume discounts and rebates, and to mitigate the risks associated with issuing incorrect tickets.
52. The beneficial owner of another major air ticket consolidator, Consolidated Travel, would hold a material interest in the merged firm and also holds a 50% interest in the operator of the only other significant air ticket consolidation business, the Orient Express Travel Group. The ACCC's inquiries indicated that

the merged firm, Consolidated Travel and Orient Express Group would account for a significant proportion of total air ticket consolidation services supplied in Australia.

53. The ACCC's preliminary view was that the merged firm, Consolidated Travel and Orient Express Group may be unlikely to compete vigorously post-acquisition due to the equity interest between them. However, the ACCC's further inquiries and analysis indicated that there were a series of constraints that would destabilise any coordination between the merged firm, Consolidated Travel and Orient Express Group, and provide an incentive for continued competition in the provision of air ticket consolidation in Australia.
54. First, the ACCC took the view that the merged firm, Consolidated Travel and the Orient Express Travel Group have strong incentives to grow sales volumes, since any diminution of competition between the three suppliers may result in their retail customers losing air ticket sales to competitors such as Flight Centre, online retailers and air carrier websites. The ACCC took the view that the merged firm, Consolidated Travel and the Orient Express Travel Group would be unlikely to be able to achieve the increase in margins required to offset the volumes likely to be lost to alternative distribution channels if they reduced their support to agents.
55. The ACCC also considered that the potential growth of smaller consolidators or the entry of independent buying groups into the provision of air ticket consolidation services may provide some competitive constraint on incumbent suppliers including the merged firm. Furthermore, a significant proportion of retailers also have accreditation from the International Air Transport Association, which enables them to write their own tickets and bypass air ticket consolidators.
56. The ACCC therefore concluded that new entry, retailer bypass and the indirect constraint from Flight Centre, online agents and direct distribution by air carriers (in particular, via their websites) would prevent the merged firm from exercising market power (unilaterally or in coordination) in the provision of air ticket consolidation services. Accordingly, the ACCC found that the proposed acquisition was unlikely to substantially lessen competition in this market.

Other issues

57. With respect to the following markets, which were identified in the Statement of Issues as markets where the ACCC considered competition concerns were unlikely to arise, no information was provided during the course of the ACCC's further inquiries that contradicted the ACCC's preliminary view:
 - the national market for the supply of corporate travel management services; and
 - markets for the supply in Australia of domestic and international air travel services.
58. With respect to the supply of corporate travel management services, the ACCC found that several significant competitors would provide an effective competitive constraint on the merged firm. The ACCC also found that, despite the equity interest in the merged firm held by Qantas, the merged firm would continue to

rely on access to domestic and international air fares from non-Qantas carriers and these carriers could also access customers directly and via the merged firm's competitors. The ACCC therefore concluded that the proposed acquisition was unlikely to substantially lessen competition in these markets.

59. The ACCC also identified in the Statement of Issues that it considered competition concerns were unlikely to arise in the market for the retail supply of leisure products by virtue of the degree of vertical alignment between Qantas and the merged firm which would result from the proposed acquisition. No information was provided during the course of the ACCC's further inquiries to contradict this view. The ACCC concluded that Qantas owning a lesser interest in a larger retail group, when compared to the current interest Qantas holds in Jetset, was unlikely to significantly affect competition in the retail market for leisure travel products and did not alter its conclusions in relation to the horizontal effects of the proposed acquisition discussed above.

Conclusion

60. The ACCC found that the merged firm and its member agents are likely to face continued and increasing competition from online travel agents, direct supply by airlines and hotels, and the largest travel retailer in Australia, Flight Centre. Accordingly, the ACCC formed that view that the proposed acquisition was unlikely to substantially lessen competition in the relevant markets and would therefore not contravene section 50 of the Act.