

Zordan Legal

20 November 2009

Our Ref. TZ:09106

Ms Erin Donohue
Australian Competition & Consumer Commission
23 Marcus Clarke Street
CANBERRA ACT 2601

By Email: erin.donohue@accc.gov.au

Dear Ms Donohue

HARVEY WORLD TRAVEL FRANCHISES PTY LIMITED EXCLUSIVE DEALING NOTIFICATION N94267

I refer to your letter dated 5 November 2009 requesting further information in relation to the notification referred to above and to our telephone conversation and my email to you of 16 November 2009 confirming an extension of time to provide you with the requested information by today.

I am instructed to respond to your questions as follows (using the same numbering as in your letter, for ease of reference):

Question 1:

Stella Travel Services comprises an integrated travel network that includes key retail brands such as Harvey World Travel ("HWT") and Travelscene American Express. It operates 2500 retail and corporate travel outlets; online travel platforms; airline representations; ticketing agencies and several wholesale packaging operations. Due to the diversity of travel businesses within its network it deliberates carefully on the most suitable Global Reservation System ("GDS") for each of its business unit needs. As a result, Stella Travel Services maintains commercial relationships independent of each other with the three (3) GDS operators in Australia.

Galileo Southern Cross ("Galileo") is a world leader in solutions for travel agents and particularly the leisure sector in which HWT specialises. Part of the selection criteria was to understand the strategic direction of Galileo both now and for the duration of the agreement. This was done both locally and by a senior executive visit to the Galileo head quarters in the United States of America.

HWT has had a mutually successful relationship with Galileo dating back nearly two decades. In 2002, prior to HWT engaging in third line forcing, over 90% of HWT franchisees elected to operate using the Galileo GDS system. As the relationship has matured and Galileo has become even more widely accepted as our preferred GDS partner, the number of franchisees using Galileo has increased to today's level of 97% of total network or over 290 franchisees. It is worth noting however that the usage rate has grown steadily over time and the change process has been a gradual, not hurried, transition to where we are today.

Parent company knowledge, expertise and buying power allowed HWT to form an authoritative view on the competitive GDS landscape and the relevance of current market/trading conditions, which have been some of the toughest the travel industry has seen in years. The decision to re-negotiate and re-sign with Galileo in 2009 (a process that took over 5 months to complete) was based on concluding an arrangement on significantly more favourable commercial terms for franchisees than ever before. The affect of this is a lower operational cost for the franchisees, which in turn delivers lower travel costs to consumers due to agent productivity, efficiency gains and lower baseline costs.

Question 2:

HWT's agreement with Galileo comprises numerous performance and accountability measures to ensure outcomes are results driven. Mutual accountabilities and scheduled meetings to review performance is an integral part of the commercial relationship. HWT meets with Galileo on a monthly operational and quarterly strategic basis and has regular dialogue on day-to-day matters. In addition, HWT hosts an Information Technology Advisory Group, whose purpose it is to increase two-way communication between the network, Galileo and the HWT IT department in achieving continual improvement and workable solutions to operational issues. Other key accountabilities centre on potential system down-time; ability to deliver support and technical expertise; face-to-face and online training; and an Australian staffed help desk for franchisees.

Unique to this commercial agreement is the role HWT plays in system development of Galileo functionality. We have continual engagement with Galileo where HWT franchisees conduct testing and trials on system developments and enhancements before network implementation. This allows us to craft developments specific to the needs of our franchisees and customers. Development work results in franchisees receiving richer GDS content housed in more user-friendly workflow that allows the franchise owner to concentrate on driving sales rather than navigating through complex and timely sales processes. Customers benefit from a more dynamic sales experience that allows the travel consultant a greater degree of flexibility, product choice and the ability to adapt and modify to each individual travellers needs. Future developments will provide more control for franchisees to preference sales, which will result in improved franchise business profitability.

Due to high franchisee acceptance, satisfaction, stability and long-term support from Galileo, it is unlikely that we would undertake a conversion to another GDS in the short-term nor gain franchise network support to do so. Travel agents rely heavily on their GDS to the extent that the high cost of conversion (hardware and software integration into our Standard Operating Environment, training and general changes to operating procedures) would be too wide-ranging and time and cost prohibitive for most franchisees.

Question 3:

New franchise applicants are fully briefed on Galileo as our preferred GDS partner as they consider entrance of the HWT franchise system. Our overall technology solution forms a key part of the HWT value proposition and a key part of the reason that franchisees join the network. A travel agent that is re-branding and joining HWT from another travel agency group or independent operation is permitted to enter the franchise system with another GDS contract on the proviso that it converts to Galileo at the expiration of the existing contract. This process is undertaken on a consultative basis with the new franchisee to ensure that no unnecessary financial burden is created for either party. We are in discussions with the remaining 3% of existing HWT franchisees not currently using Galileo with a view to an organised and agreeable changeover schedule that achieves minimal operational disruption.

Please do not hesitate to contact me if I can be of further assistance.

Yours faithfully
Zordan Legal



Tania Zordan