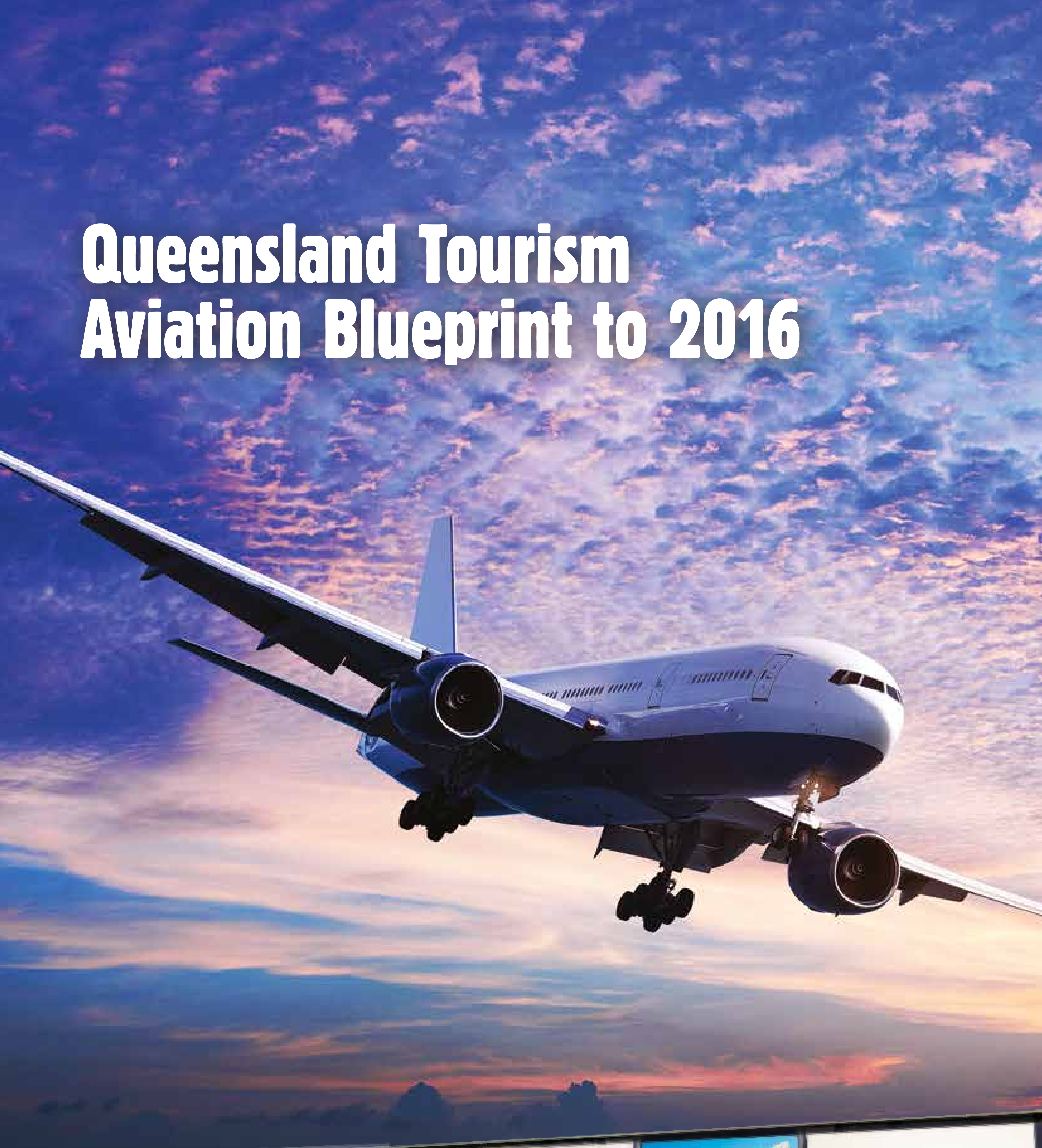
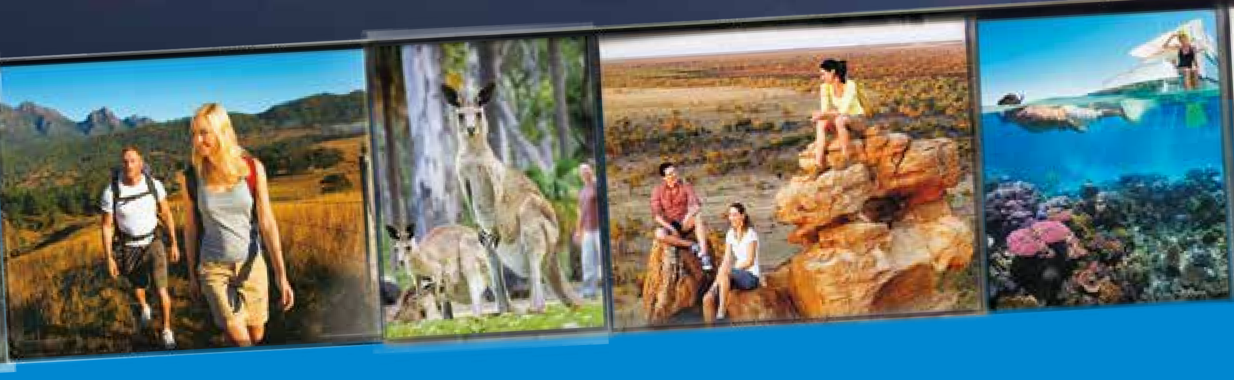
Queensland Tourism Aviation Blueprint to 2016





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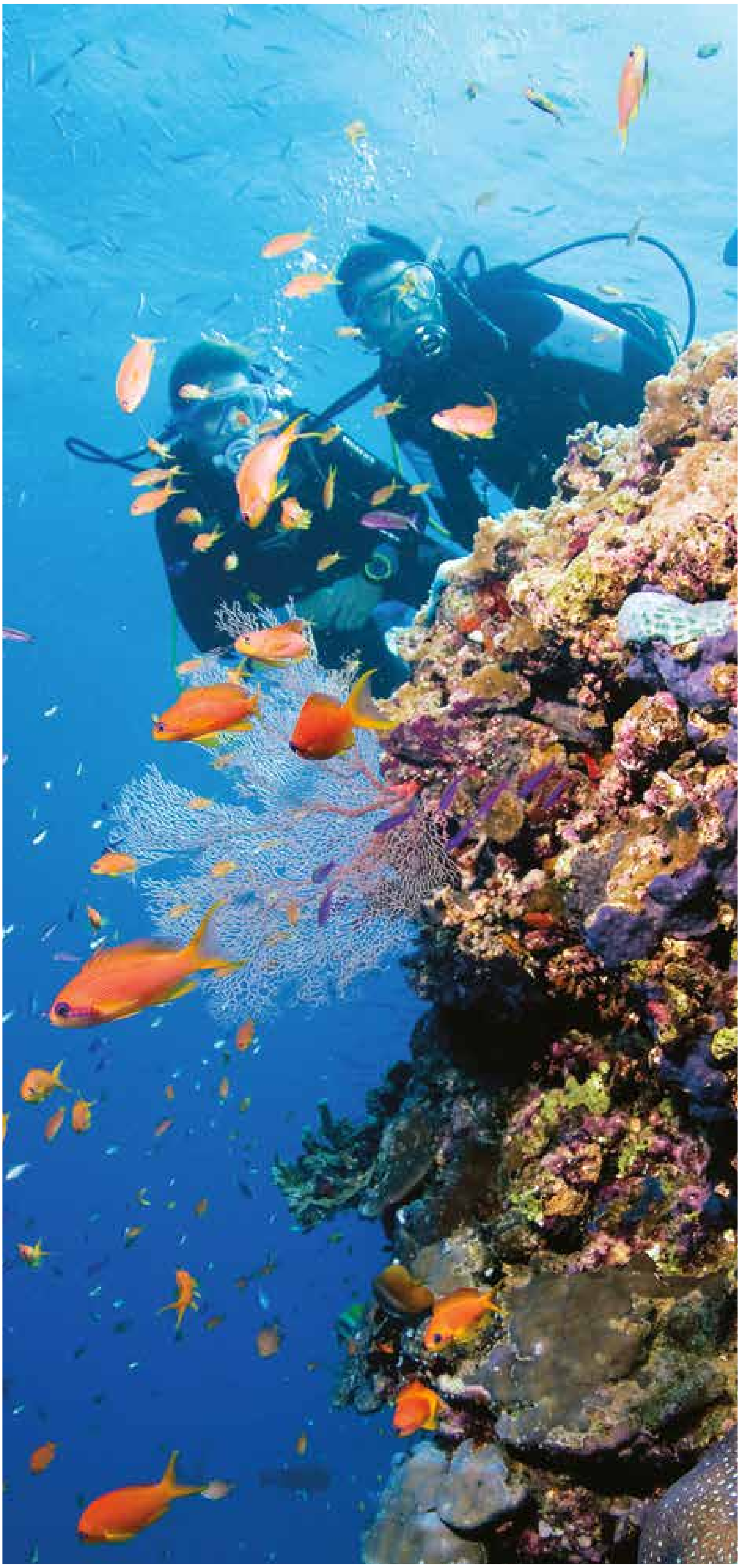


Blueprint outline

The purpose of the 'Queensland Tourism Aviation Blueprint to 2016' is to develop the strategic framework that will guide aviation route development for domestic and international services to Queensland.

The blueprint supports the Queensland Government's key pillar of tourism and will be assisted by the Attracting Aviation Investment Fund that has been established to grow new routes into Queensland. The blueprint also supports the Destination Tourism Plans being developed for each region.

The blueprint has been developed based on research, data, current route structures, industry goals, market intelligence, industry engagement and the current and future strategic objectives that have the potential to impact on air access into Queensland.

As the aviation industry is constantly changing, this blueprint is not rigid and it will evolve as the industry shifts to face new challenges and opportunities.

Blueprint background

As indicated in the DestinationQ Blueprint 2012-15, the "2020 growth target is ambitious. Visitor expenditure is expected to reach $21.7 billion per annum by 2020 under the Tourism Forecasting Committee's (TFC's) forecasts representing a business usual expectation. Reaching the government's 2020 growth target of $30 billion requires the current trend to be broken and growth in visitor expenditure accelerated." This aviation blueprint focuses on the aviation capacity requirements to meet the 2020 target and the aviation blueprint is based on the $30 billion expenditure target.

Importance of air access to the Queensland tourism industry

Domestic and international visitors contribute $17.3 billion in overnight visitor expenditure in Queensland each year[1]. Tourism directly contributes approximately $8.4 billion to the Queensland economy, accounting for 3.1% of Gross State Product. Tourism generates $5.0 billion in overseas export earnings, and ranks second behind coal in terms of export earnings. The industry contributes significantly to employment, directly employing 5.4% of Queenslanders[2].

In order to achieve the overnight visitor expenditure target of $30 billion per annum by 2020, Queensland needs to continue to have a strong aviation sector. Frequency and capacity of competitively priced air access to destinations throughout the state is crucial and will be driven by on-going competition between airlines. The aviation blueprint clearly outlines the capacity targets to position Queensland on the path towards achieving the 2020 visitor expenditure target. Key growth markets and new routes with insufficient capacity relative to the demand will be targeted.

[1]Tourism Research Australia – National and International Visitor Surveys, year ended December 2012
[2]Tourism Research Australia – State Tourism Satellite Accounts 2010-11, year ended June 2011

The $30 billion expenditure target

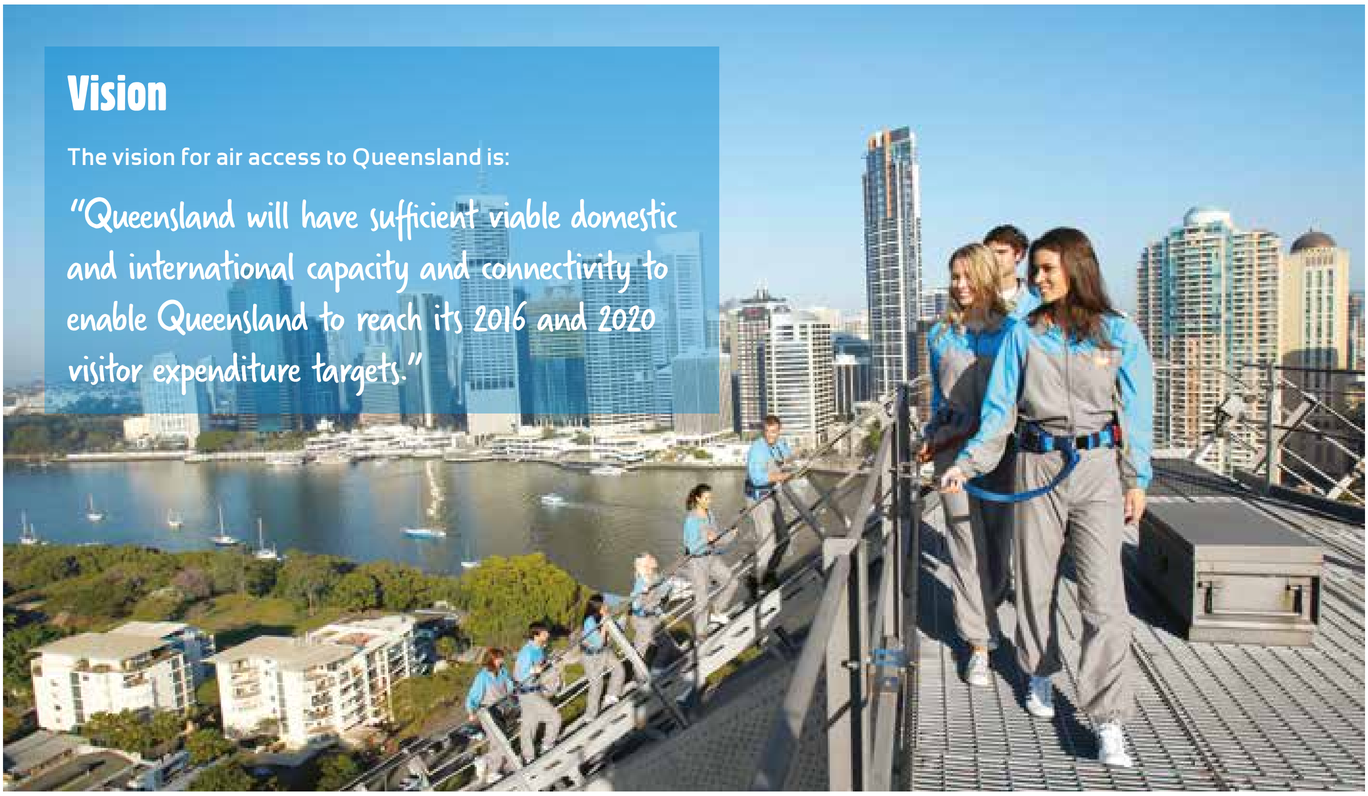
The blueprint focuses on developing commercially viable airline services that will form the basis for driving visitor expenditure from the source markets to help reach the 2020 target of doubling overnight visitor expenditure to $30 billion per annum by 2020.

The visitor expenditure targets for each source market for 2020 are shown in the table below:

Source Market	Current Expenditure $b (YE December 2012)	2020 Visitor Expenditure Target $b	Increase $b
Domestic	13.46	21.23	7.77
Total International Markets	3.82	9.03	5.20
China	0.47	1.45	0.98
Europe excluding UK	0.58	1.25	0.67
New Zealand	0.52	1.02	0.50
North Asia	0.45	0.92	0.47
North America	0.37	0.88	0.50
India / Middle East	0.13	0.85	0.72
Other Countries	0.31	0.78	0.47
Southeast Asia	0.31	0.70	0.39
United Kingdom	0.36	0.68	0.32
Japan	0.32	0.49	0.17
South Korea	0.23	0.45	0.23

Source: Tourism Research Australia – International Visitor Survey, Tourism and Events Queensland estimates

The blueprint will assist in developing the strategic objectives in airline access from each source market to enable Queensland to move towards the doubling of overnight visitor expenditure to $30 billion per annum by 2020.



Vision

The vision for air access to Queensland is:

"Queensland will have sufficient viable domestic and international capacity and connectivity to enable Queensland to reach its 2016 and 2020 visitor expenditure targets."

Strategic priority and supporting catalytic drivers

The blueprint has one overarching strategic priority that is supported by four catalytic drivers. The four catalytic drivers provide the framework that will help to deliver the overall strategic priority for Queensland.

Strategic Priority	Objective
Targeting Capacity	Actively maintain and increase current route capacity as well as secure viable new routes that will be critical to Queensland reaching its 2020 expenditure target.
Catalytic Drivers	**Rationale**
Building Demand	The underlying driver of air capacity will be the overall demand and desirability of the destination. The continued desirability of the destination requires the continual development of the tourism product in the destination, the marketing of the destination and the marketing of the events in the destination. From here the demand for air services can be built through increasing the demand for the destination to the point where a new or increased air service becomes viable. The viability of an air service is the most critical aspect in securing and maintaining capacity. Tourism and Events Queensland will work with key tourism industry partners to cooperatively market Queensland destinations.
Improved Regulatory Environment	To reach the 2020 target of overnight visitor expenditure of $30 billion per annum for Queensland and $140 billion per annum for Australia it will be crucial for the air services policy in Australia to be conducive to this environment. Air services agreements between Australia and other countries will need to be accommodating of the growth that is required from the key source markets and also the airlines that will facilitate travel from these key source markets.
Data Driven Decision Making	Analysing the underlying demand for air services to a destination combined with the current alternative travel paths and modes of transport will provide a strong indication to the viability of a route for either new or increased capacity.
Partnerships	It is vital that partnerships between state, regional and national tourism bodies, economic development bodies, local councils, local industry associations and state government departments are supportive and recognise the importance of air services not just for tourism but for facilitating trade between regions. This focus and recognition will help ensure the longer term viability of air services.

Domestic route development priorities and key initiatives

The domestic market is forecast to contribute a significant amount of the $30 billion overnight visitor expenditure target for 2020. In order to reach this target there will need to be significant growth in the domestic market into key Queensland destinations.

Queensland is pursuing a cumulative average annual growth rate in capacity of 5% per annum between year ending 30 June 2013 and the year ending 30 June 2016 in order to help Queensland achieve the capacity needed to be on track to reaching the 2020 target. This growth needs to be balanced against maintaining the viability of existing routes and creating growth that is sustainable. The exit of a carrier from a route makes it difficult over the longer term to re-establish a route, and in order to build capacity, the underlying market demand and yield must be present to establish a route.

Key initiatives that will be pursued with the cooperation of partners are:

- maintain and grow viable capacity on the existing major routes into Queensland destinations
- encourage strong competition and choice in both the full service and low cost carrier markets to Queensland destinations
- minimise the number of single carrier routes where there is the potential viability for two carriers on the route
- secure viable new domestic routes to Queensland ports

International route development priorities and key initiatives

In order to achieve the required expenditure from key international source markets there will need to be growth in the amount of international capacity to Queensland. Queensland is pursuing a cumulative average annual growth rate in capacity of 6% per annum between year ending 30 June 2013 and the year ending 30 June 2016 in order to help Queensland achieve the capacity needed to be on track by 2016 to reach its 2020 target.

This growth needs to be pursued in a sustainable approach. Once a carrier has entered and exited from an international route, it makes it is extremely difficult for the route to be re-established. It is critical in international aviation to Queensland that once a route commences it is maintained for the long-term. As Queensland seeks to achieve the international growth target of 6% per annum between year ending 30 June 2013 and the year ending 30 June 2016 the balance between growth and sustainability needs to be carefully considered.

Key initiatives that will be pursued with the cooperation of partners are:

- Maintain and grow viable capacity on the existing routes into Queensland destinations and secure new viable routes to Queensland destinations by:
  - building connections at major network hubs for significant carriers to Queensland
  - creating the diversified hub proposition
  - growing sub-daily international services for key source market to daily services
- Targeted increase in capacity from China
- Services from New Zealand to Regional Destinations
- Reactivate markets that have been impacted by external events

Key initiatives explained

Build connections at major network hubs for significant carriers to Queensland

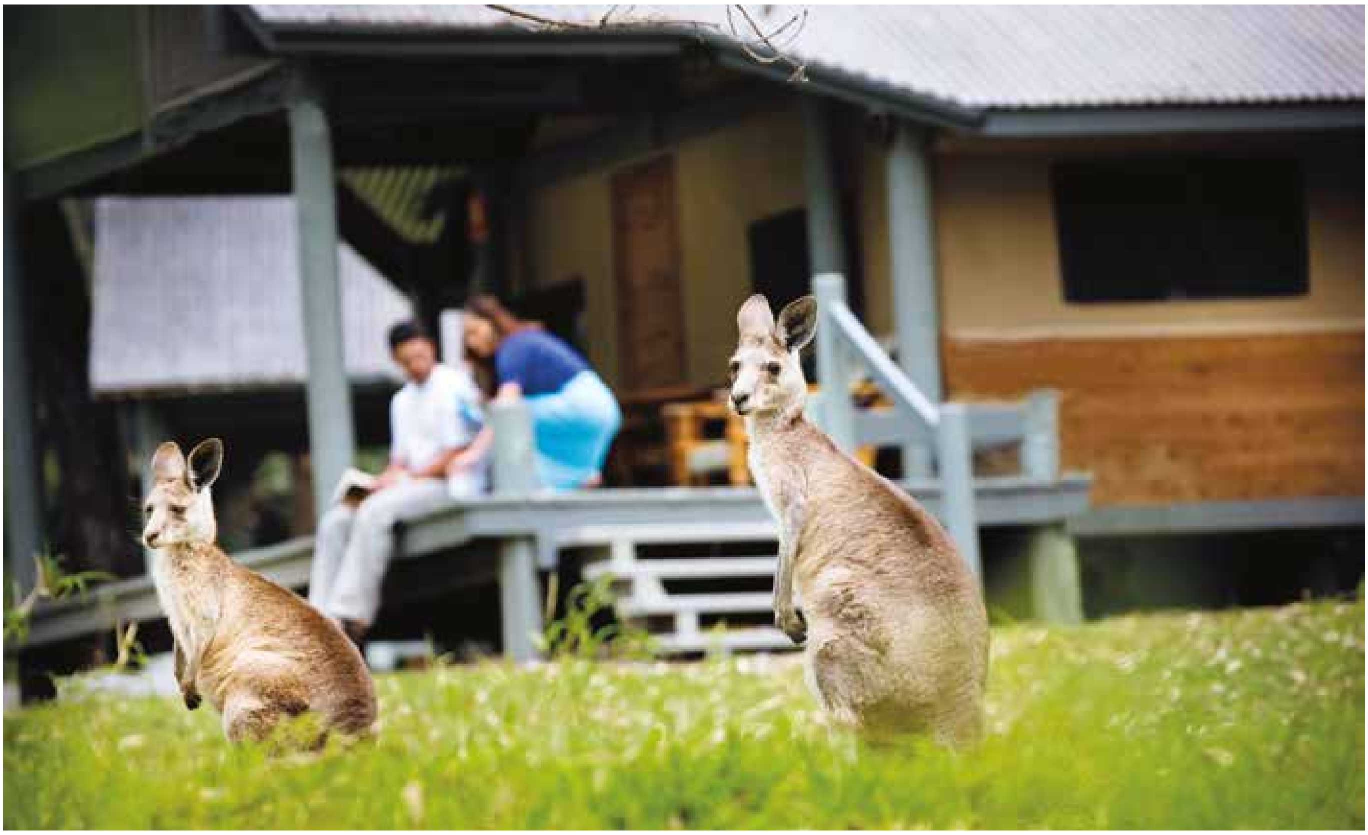
To reach the target of doubling overnight visitor expenditure to $30 billion per annum by 2020 significant growth will be required on existing routes from the key global hubs. In order to ensure flights to Queensland connect in a timely manner to other cities it is critical that there are multiple services per day to these hubs.

A key aspect of this will be growing carriers that are already above a daily frequency to double daily, triple daily or even four times daily. The multiple daily connections will enable the travel time to Queensland from most cities in the world to be reduced and also ensure that most cities are a maximum of one-stop to Queensland.

The key hubs that will focus on ensuring that Queensland is connected to the world will include Auckland, Singapore, Kuala Lumpur, Hong Kong, Tokyo, Los Angeles, Dubai and Abu Dhabi. Growing services to these key international hubs, with airlines that have shown a strong long term commitment to maintaining and growing services to Queensland, as well as promoting Queensland and its regional destinations will be crucial to providing the capacity that is required for Queensland to be on track to reach the $30 billion expenditure target. It is expected that over the life of this blueprint that the major hubs in China will develop into key hubs for Queensland. This will include Guangzhou, Shanghai and Beijing. Sydney is also included as a major hub for Queensland as Sydney accounts for 40% of all international passenger movements into and out of Australia. Queensland needs to maintain strong domestic connections with Sydney to ensure that the international visitors that arrive via Sydney can easily transit to Queensland destinations.

As not all destinations in the world can reach Queensland non-stop the use of key hubs enables visitors from many parts of the world to reach Queensland under via one-stop. Through these key hubs 452 cities in 115 countries[3] are one-stop to Queensland.

[3]SRS Analyser as at May 2013



Create the diversified hub proposition

External shocks have and will continue to impact on the airline and tourism industry. These shocks can be a temporary set-back, such as volcanic ash cloud resulting in the grounding of flights, or it can be a significant incident that materially impacts on the demand for travel and a destination, such as a terrorism event. Where and when an event may happen is the unknown variable. To mitigate this, Queensland is focussed on ensuring a globally diverse range of hubs to allow long-haul visitors to travel to Queensland. These hubs need to be positioned where there is the potential to provide connectivity from Queensland's key source markets. The focus will be on ensuring there is strong connectivity from North Asia, South East Asia, the Middle East and also North America.

The presence of four strong geographic hubs should mean that if there is an event such as a health scare that temporarily inhibits the functioning of a hub, visitors from Queensland's key source markets should be able to find an alternative travel path to Queensland via one of the other three geographic hubs.

Grow sub-daily international services for key source market to daily services

To reach the target of doubling overnight visitor expenditure to $30 billion per annum by 2020, significant growth will be required on existing routes by existing carriers. A daily schedule ensures that all travel itineraries can be met and it lowers the unit cost of the route by having any corporate overheads unitised across seven services rather than less than daily.

Reactivate markets that have been impacted by external events

Over the years several large markets to Queensland have been impacted by external events that have curtailed the demand and supply from that destination to Queensland. As part of doubling overnight visitor expenditure to $30 billion per annum by 2020 the reactivation of these once strong markets has the potential to increase visitor expenditure to Queensland. As part of any effort to reactivate these markets it will require market stimulation. The trade-off of resource effort placed into stimulating these markets as opposed to stimulating existing markets will need to be carefully considered.

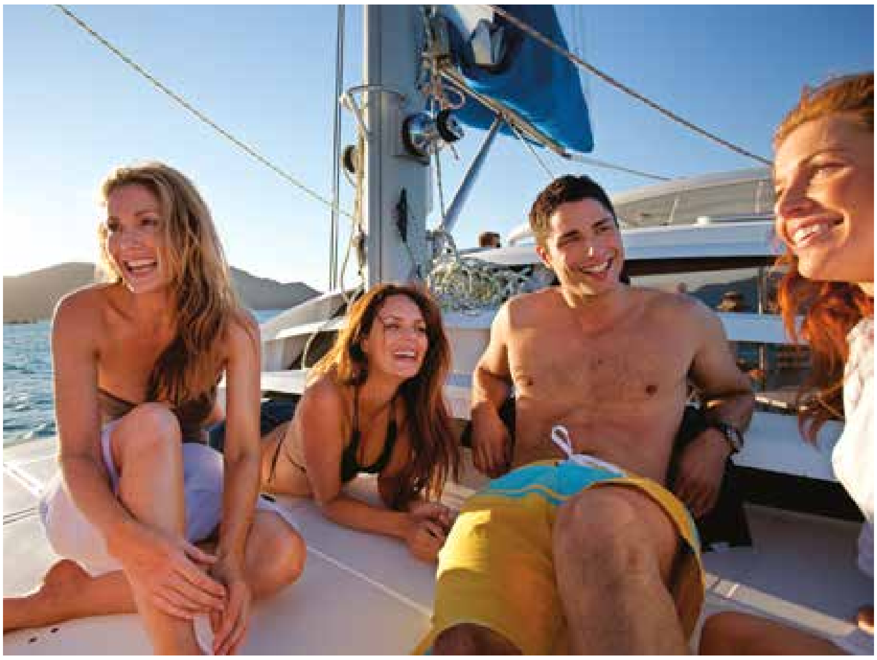
Particular markets of relevance for potential reactivation include:

- Christchurch
- Tokyo
- Nagoya

Summary of the key initiatives to 2016

Key initiatives that will be pursued with the cooperation of partners are:

- Domestic
  a. maintain and grow viable capacity on the existing major routes into Queensland destinations
  b. have strong competition and choice in both the full service and low cost carrier markets to Queensland destinations
  c. minimise the number of single carrier routes where there is the potential viability for two carriers on the route
  d. secure viable new domestic routes to Queensland ports
- International
  a. maintain and grow viable capacity on the existing routes into Queensland destinations and secure viable new routes to Queensland destinations by:
     i. building connections at major network hubs for significant carriers to Queensland
     ii. creating the diversified hub proposition
     iii. growing sub-daily international services for key source market to daily services
  b. targeted increase in capacity from China
  c. services from New Zealand to regional destinations
  d. reactivate markets that have been impacted by external events



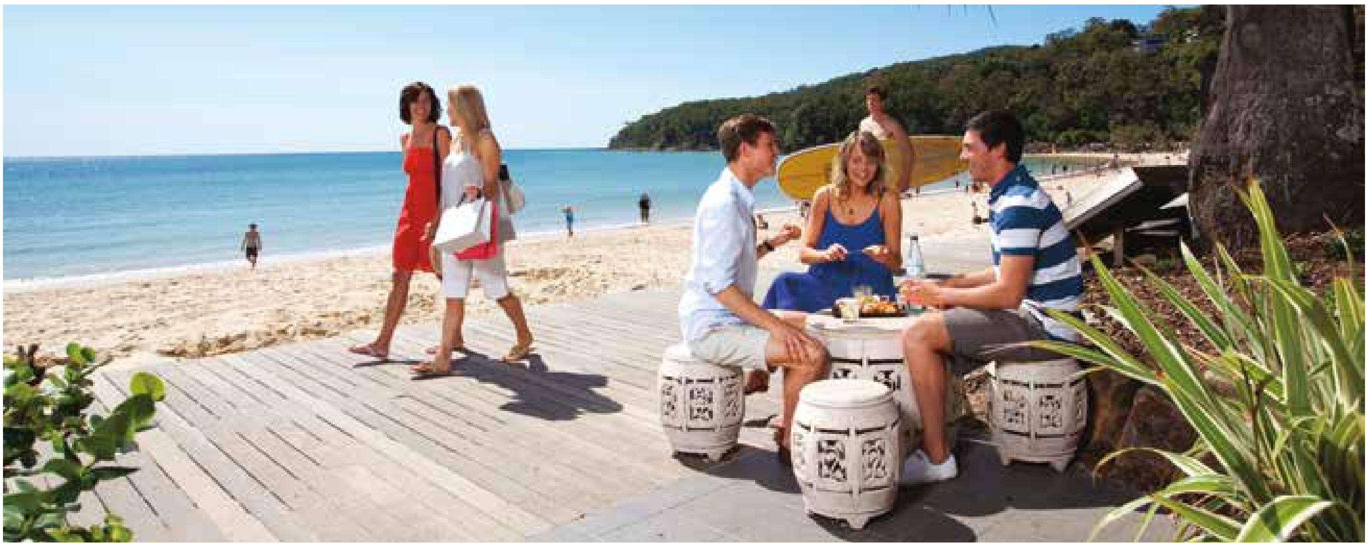
Measuring success

The strategic priority will be measured using the following key performance indicators:

- Targeting Capacity – domestic capacity to Queensland grows at a cumulative average annual growth rate of 5% per annum between year ending 30 June 2013 and the year ending 30 June 2016.
- Targeting Capacity – international capacity to Queensland grows at a cumulative average annual growth rate of 6% per annum between year ending 30 June 2013 and the year ending 30 June 2016.

Achieving these targets will be dependent on the overall viability of growing capacity which in turn will depend on the demand and yield of the individual routes to Queensland destinations.

This target and the targets against each initiative are based on the doubling overnight visitor expenditure to $30 billion per annum by 2020. It is possible that the aviation capacity targets in this blueprint could be reached and that the target of doubling overnight visitor expenditure to $30 billion per annum by 2020 will not be on target at 2016 due to a slower growth rate in tourism that utilises different modes of transport.



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