



12 June 2007

Damian Drum MLC
Chair
Rural and Regional Committee
Parliament House
Melbourne VIC 3002

Dear Mr Drum

Re: Parliamentary Inquiry into Rural and Regional Tourism

I refer to your letter of 19 April 2007 to Mr Geoff Dixon inviting Qantas to make a submission to the Rural and Regional Committee's inquiry into Rural and Regional Tourism in Victoria.

We welcome the opportunity to provide comments on our commitment to regional tourism in Victoria and our growing presence in the State.

Qantas delivers three out of every ten international passengers to Australia, and is the single largest private sector organisation marketing Australia overseas. We are also the major player in the Australian domestic market and our highly integrated network is able to disperse our customers throughout the country and intrastate.

The Group's operations in Victoria have expanded substantially in recent years, with the establishment of our low cost airline subsidiary, Jetstar. Our decision to base a number of major facilities in Victoria also plays an important role in supporting our operations more broadly and attracting additional business to the State.

The attached submission provides an overview of the Qantas Group's activities in Victoria, with a particular focus on those relevant to regional and rural tourism. We have also highlighted some of the challenges facing us in serving regional and rural destinations.

We would be pleased to provide any further information to the Committee if it would be of assistance.

Yours sincerely

J. McLean

for

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Government and International Relations



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1. QANTAS GROUP IN VICTORIA

The Qantas Group has a longstanding presence in Victoria and continues to make a significant contribution to the State's economy. Today we employ 7,000 staff in a range of functions throughout the State.

Together, Qantas and Jetstar operate approximately 765 return domestic services per week from Victoria, offering approximately 145,000 seats per week. This represents an increase of 45% in available seats since 2003. In addition, QantasLink, the Group's full service regional operator offers approximately 100 return services each week.

This growth is attributable to a combination of a growing fleet, the operation of larger aircraft, for example the use of Boeing 747 aircraft on the Melbourne-Perth route, and the introduction of Jetstar in May 2004.

Internationally, the Group operates approximately 60 return services per week between Melbourne and 13 international destinations. Qantas also recently announced that twice weekly services to Shanghai will commence in March 2008. Between 2003 and 2005, seats available from international destinations to Melbourne increased by 28%. Between 2005 and 2007, this will have increased by a further 21%.

Qantas has invested in significant product enhancements on key international routes, with the Skybed business class seat installed on all aircraft operating between Melbourne and Singapore, Hong Kong, Tokyo, Los Angeles and London. In May 2007 Qantas opened a new flagship First Class lounge at Melbourne airport. Lounges are an important point of differentiation for long haul international air travellers, including for leisure customers.

QantasLink

QantasLink currently operates approximately 30 return services per week between Melbourne and Mildura, and services to Mt Hotham from both Melbourne and Sydney during the winter ski season. QantasLink's service to Mt Hotham is the only genuine fly in and ski destination in Australia, which greatly benefits the Hotham community and associated businesses.

QantasLink also operates between Sydney and the border town of Albury, which services the Victorian regions of Wodonga, Falls Creek and Wangaratta and operates interstate services directly into Melbourne from Devonport and Launceston in Tasmania, as well as from Newcastle and Wollongong in New South Wales. The Wollongong - Melbourne services were successfully launched in June 2004 in conjunction with an extensive cooperative marketing campaign with Tourism Victoria.

QantasLink has had a base in Mildura for more than 26 years, where 50 staff, comprising pilots, flight attendants, customer service personnel and engineers are based. QantasLink also conducts daily line maintenance of its Dash 8 aircraft in Mildura.

Jetstar

The decision to base Jetstar in Victoria represents a significant boost to aviation and tourism in the State. Jetstar now operates over 200 domestic flights weekly from both its Tullamarine and Avalon bases. Jetstar currently has approximately 1,600 staff, over 540 of whom are based in Victoria, and this figure is expected to grow.

Jetstar commenced operations from Avalon Airport on 1 June 2004 and currently operates approximately 70 services per week, with further growth planned. Jetstar's operations at Avalon include over 60 airport based jobs, and have created many more indirect positions.

Services to Avalon have opened up Western Victoria to visitors, to the benefit of communities and businesses in the region. Jetstar has actively promoted the area by engaging in marketing activities in conjunction with Tourism Victoria, promoting the Great Ocean Road. Furthermore, Jetstar has recently developed a 'Jetstar Holidays' arm, which provides package holiday options that will further help in attracting visitors to the State.

Jetstar's growth has been further boosted by its international expansion, having launched services to Christchurch in December 2005, and more recently introducing flights to Denpasar, Bangkok and Honolulu. Jetstar's international growth and focus on inbound markets will continue to strengthen the Qantas Group's presence in Victoria as it has further opportunities to expand, through the delivery of new Boeing 787 aircraft, scheduled to arrive from late 2008.

Affiliate Airlines

Qantas supports the operations of smaller independent regional airlines that serve routes where demand is too low to sustain operations by larger aircraft. South Australian based O'Connor Airlines has an affiliate relationship with the Qantas Group and offers services from Adelaide to Mildura and from Mt Gambier to Melbourne. Qantas provides O'Connor Airlines with access to the Qantas reservation system and to e-ticketing technology which enables the airline to distribute its product worldwide and allows passengers to travel seamlessly with mainline Qantas services. Qantas has also made O'Connor Airlines a member of our Frequent Flyer program.

Tourism

Qantas has very effective working relationships with both Tourism Australia and Tourism Victoria, with similar strategic objectives underpinning our activities, especially in promoting rural and regional markets.

Qantas has a three-year Global Marketing Partnership deal with Tourism Australia worth \$60 million directed at promoting Australia in 11 key overseas markets. Part of this spend is used to encourage tourists to move beyond traditional gateways to regional destinations.

Qantas has designed a variety of packages, such as the 'Aussie Airpass', which have been successful in enabling visitors to see more of Australia. The Aussie Airpass offers Canadian and American travellers a return international flight to Australia together with three domestic sectors for a very attractive low price. Similar initiatives are in place for visitors from the United Kingdom and Japan. Qantas is also a supporter of Tourism Australia's 'Aussie Specialists' program, which aims to equip

members of the retail travel trade with expert knowledge and skills in order to sell Australia effectively.

Qantas works in conjunction with Tourism Australia in providing \$380,000 worth of sponsorship for the Visiting Journalist Program (VJP), which aims to bring accredited print and broadcast journalists and film crews from around the world to Australia to experience the country first hand. Participants in the VJP are encouraged to visit destinations Australia wide, including rural and regional destinations. The VJP has been very successful in generating positive media coverage of Australian destinations worldwide.

Qantas also works closely with Tourism Victoria, with a financial commitment of close to \$140,000 for 2006/07. Qantas and Tourism Victoria have a range of joint partnerships and investments and Qantas is a proud sponsor of Tourism Victoria's annual tourism awards.

Qantas has a strong relationship with the Australian Tourism Export Council (ATEC) and sponsors travel familiarisations for inbound tour operators to visit and experience Victorian product throughout the State. Qantas also works closely with the Melbourne Convention Bureau who assists in driving business opportunities to the State.

With the commencement of Jetstar services from Avalon, Jetstar and Tourism Victoria launched a highly successful \$3 million campaign focussed on the Great Ocean Road and surrounding regional tourism. Jetstar continues to work closely with Tourism Victoria, with a co-operative financial commitment of \$100,000 currently being used to promote Melbourne.

Qantaslink works closely with Mildura Tourism, Hotham, Falls Creek and Destination Albury Wodonga to promote the respective regions. Qantaslink has hosted familiarisations for travel writers, journalists and travel agents to visit regional Victoria.

Qantas Holidays

Qantas Holidays is a wholly owned subsidiary of Qantas Airways and Australia's premier travel wholesaler.

In 2006, Qantas Holidays conducted a Gourmet Touring Campaign that featured the Yarra Valley, Daylesford and Mildura. The campaign was executed across national print media and complemented with a specific stand alone in-store flyer. Qantas Holidays also have Yarra Valley self-drive packages available on a seasonal basis.

In 2007, Qantas launched two new brochures for Victorian destinations, one entitled 'City Breaks', which features Melbourne, and the other called 'Discover', which features regional Victorian destinations including Echuca, Bendigo, the Mornington Peninsula, the Yarra Valley, Daylesford, the Great Ocean Road and Phillip Island. In July 2007, Qantas Holidays will launch a dynamic packaging online booking engine, which will enable its packages to be accessed worldwide.

The majority of Qantas Holidays activity in regional Victoria is based on self-drive itineraries, packaging hotels with car hire plus other components such as flights. Qantas Holidays also offers a number of supplier operated extended tours throughout the region. These tours involve overnight stays at various properties, which may or may not be directly contracted to Qantas Holidays.

At present, visitor nights spent in regional and rural areas account for only a small proportion of Qantas Holidays' room night volume in the State. In assessing regional Victorian hotels for inclusion in the Qantas Holidays wholesale program, our first consideration is customer demand for travel to these destinations, which historically has been relatively low.

In addition, the small size of some rural destinations makes it more difficult to put together holiday packages to these areas, as available hotels do not provide sufficient scale to provide allotments to Qantas Holidays (and similarly Jetstar Holidays).

Sponsorship

The Qantas Group supports numerous major events, charities and cultural organisations based in both metropolitan and regional Victoria including:

- Formula 1 Grand Prix;
- Australian Football League;
- Tennis Australia (Australian Open);
- Royal Children's Hospital;
- National Gallery of Victoria;
- Melbourne International Arts Festival;
- Melbourne Fashion Festival;
- Malthouse Theatre Company;
- The Victorian Tourism Awards;
- Mildura Country Music Festival;
- Tattersall's Cup-Cycling Series – Tour of the Murray – Mildura;
- Mildura Arts Centre;
- Mildura Powercor/Prime Business of Commerce Excellence Awards; and
- Jetstar grassroots sponsorship program with Geelong Football club.

Infrastructure and Investment

The Qantas Group has approximately \$500 million invested in land and buildings throughout the State. Significant investments in Victoria include:

- A flight catering kitchen that employs some 700 people;
- A comprehensive flight training centre that houses three Boeing 737 simulators, an Airbus A330 and Airbus A320 simulator and an emergency procedures simulator;
- A freight terminal facility at Melbourne Tullamarine Airport;
- One of the largest and most modern domestic terminal facilities in the world; and
- A telephone call centre located at Camberwell and a frequent flyer service centre located in Melbourne's city centre.

In 1998, Qantas established a heavy maintenance facility at Avalon Airport for the refurbishment of the B747-400 fleet. In May 2006, after a review of all our aircraft engineering operations, Qantas moved the remainder of its B747 heavy maintenance operation from Sydney to Avalon. This created additional employment opportunities at Avalon and the facility now employs over 850 highly skilled workers.

In addition to this facility, maintenance work on all Qantas Boeing 737 aircraft is carried out at Qantas' Tullamarine based purpose built hangar and workshop facilities, which employs over 1,300 engineers and support staff.

QantasLink's current line maintenance facility in Mildura was built in 1992. It has an area of 1,225m² and has a replacement value of approximately \$4 million.

In partnership with Patrick Corporation (now Toll Holdings) Qantas also acquired the former Ansett jet engine maintenance facility at Tullamarine in 2004. The joint venture Jet Turbine Services (JTS) has the capacity to support all of Qantas' General Electric engines as well as other Australian and New Zealand operators' fleets, and ultimately additional customer work from overseas.

2. CHALLENGES

The Qantas Group faces a number of challenges in increasing our activities in regional Victoria. These factors affect not only our operations, but the competitiveness of tourism in rural and regional Victoria.

Victoria's smaller size compared to many other Australian states means that road and rail transportation is a very viable option when it comes to intrastate travel. Regions such as the Yarra Valley, the Latrobe Valley, Bendigo, Ballarat, Shepparton, Portland and Echuca are close to Melbourne and are easily accessible by road and rail transport.

Apart from road and rail, QantasLink competes with other airlines in serving destinations such as Mildura and Albury. Regional markets can rarely sustain more than one airline, because market sizes are too thin and there are generally fewer discretionary customers than on other routes. Regional airlines rely heavily on the corporate market to maintain regular services, with most airfares sold to the genuine holiday market at or below cost price.

The advent of low cost carriers (LCC's) has markedly influenced consumer buying habits and perception of airfares. Operating air services to regional areas is relatively costly on a per seat basis - around two to three times more than for LCC's, as regional airlines cannot benefit from economies of scale due to operating smaller aircraft. Conversely, larger aircraft cannot be used, as markets are either too small, airport infrastructure is not available, or communities would lose the frequency of flights that they currently value.

Qantas welcomes the funding provided to regional tourism in the 2007/08 State Budget, particularly the boost to the Regional Aviation Fund for upgrades and improvements to regional airport infrastructure and initiatives aimed at promotions in both regional Victoria and interstate markets. Nonetheless, penetrating the market in regional areas and lifting the profile of regional destinations in Victoria remains a challenge for Qantas. The exceptions are the Yarra Valley, the Great Ocean Road, Phillip Island and the Victorian Alps – all mature destinations which have developed diverse infrastructure to attract tourism.