

Japan Current Situation and Market Performance

Overview:

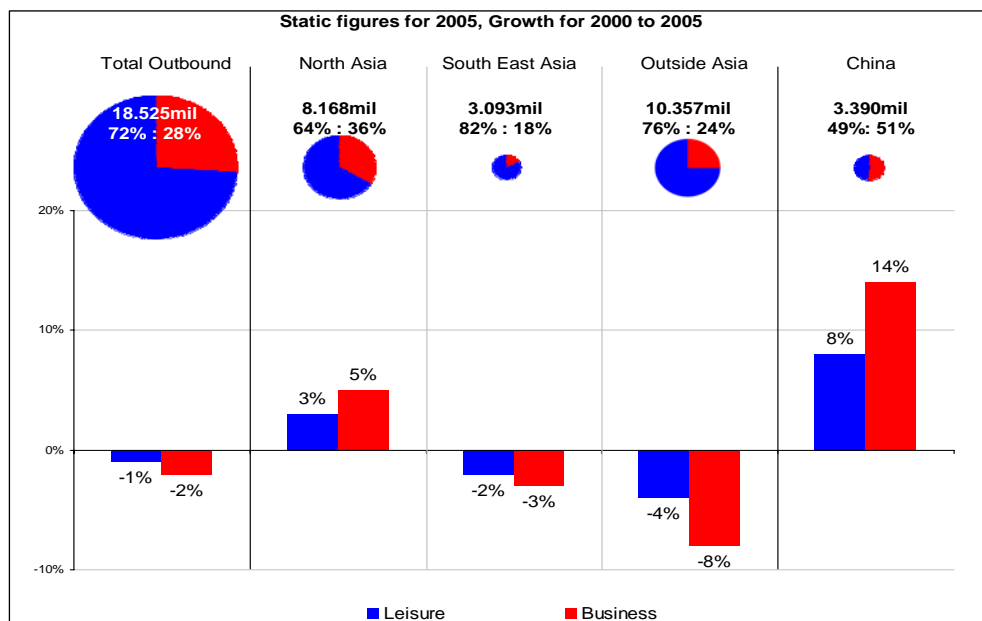
- Japan remains a key market for the Australian tourism industry. Whilst arrival numbers have remained in decline, Australia has in fact increased its economic value from the Japan market, and is holding market share in the long haul sector despite a fundamental downturn in Japan outbound leisure travel.
- There are a number of complex and challenging issues facing the industry in Australia and Japan that are very interlinked and continue to affect, inbound visitation to Australia
- Aviation still remains one of the key areas of concern for the group in regards to realising the growth potential of this market.
- The competitive environment indicates that strong capacity, frequency of service and pricing (that is a supply-led approach) helps to build and drive destination demand. This is a key reason for the high growth to competitive destinations of China and Korea ex Japan.

Two trends stand out as critical to current market performance:

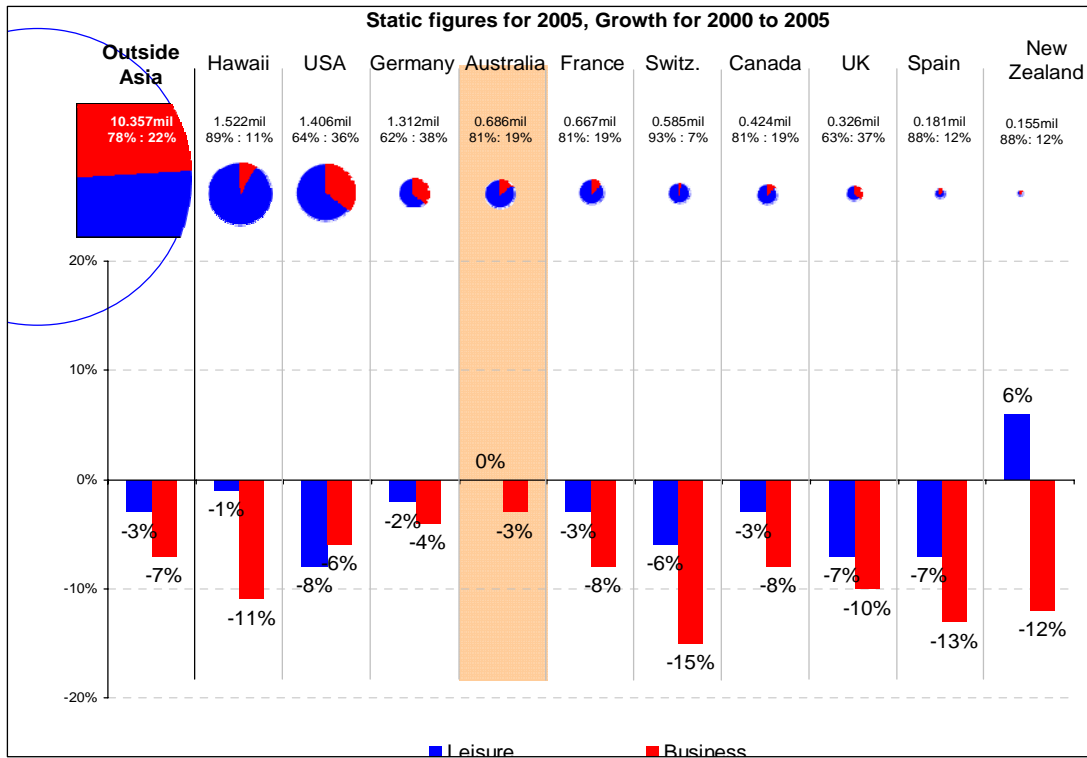
1. Leisure and Business Travel Patterns:

- Latest independent analysis has identified a new trend relating to the impact of business travel on shifts in the Japan outbound market. Australia has not continued to grow as we did in the 80's and 90's but the growth from Japan has been to destinations that are predominantly business orientated (in particular China and Korea) with Australia performing relatively well amongst leisure destinations.

Chart 1 and 2: Change in Leisure and Business Travel from Japan [Market Size, Make Up and Average Annual Growth Rate] by outbound by destination 2000 – 2005



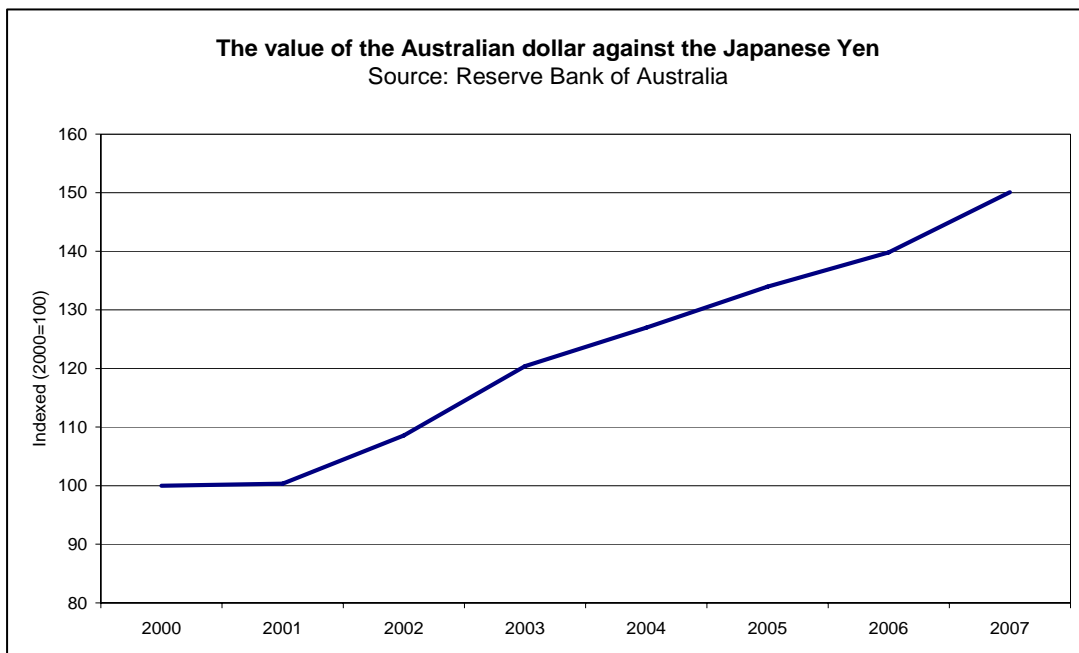
Source: Departures by destination - Japan National Tourist Organisation, NTOs; Leisure v Business Share - Japan Tourism Marketing Co. JTB Report 2006.



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2. The Value of the Japanese Yen:

- The strengthening Australian dollar has made Australia a relatively more expensive destination to visit. This is more of a concern in selected markets such as Japan.
- Over the last six years, the value of the Japanese Yen has declined 50% against the Australian dollar. A \$10,000 holiday to Australia or Hawaii during the Sydney Olympics cost 574,000 Yen and would now cost 635,000 Yen to Hawaii and 941,000 Yen to Australia due to the rising A\$.



Top-line Results:

- Japan continues to be one of Australia's core markets. The latest Japanese outbound departures reported by the Japan National Tourism Organisation for calendar year 2006^p total 17,535,242, an increase of 0.8 per cent relative to 2005. Australia's market share of calendar year 2006^p is 3.7 per cent, down from 3.9 per cent from 2005 (*p= preliminary*).
- There were 55,300 visitors from Japan during December 2006 bringing the total for 2006 to 651,000, a decrease of 5 per cent relative to 2005.
- The Japan market delivers the second highest level of Leisure Tourism Inbound Economic Value and third highest level of leisure visitors and nights (year ending September 2006).
- When taking into account exchange rate impacts, Australia has done comparatively better. Total Real Total Inbound Economic Value (TIEV) in Yen for year ending September was down 6 per cent to Y166,337m (compared to a 11 per cent decline in A\$)
- Total Real Total Inbound Economic Value (TIEV) for year ending September was down 11 per cent to A\$1,917m.
- Leisure TIEV for the same period was down 15 per cent to \$ 1,420m. The decline in leisure TIEV was more than offset by the growth in "non leisure" arrivals.

Refer following page for breakdown of TIEV (\$m) By Purpose (Table 1) and International visitors by city of arrival (Table 2) for year ending September 2000 – 2006.

Table 1: Real TIEV (\$m) By Purpose - Year Ending September 2006

Purpose of visit	YE Sept 05	YE Sept 06	% ch
Holiday	1,583.8	1,365.2	-14%
VFR	76.7	54.5	-29%
Leisure (Hol+VFR)	1,660.5	1,419.7	-15%
Business	128.8	149.2	16%
Education	292.5	270.1	-8%
Employment	12.6	9.3	-26%
All Others	59.1	68.8	17%
Total	2,153.6	1,917.2	-11%

Source: Tourism Research Australia, International Visitors Survey. (Base: visitors aged 15 years and over).

Table 2: International visitors by city of arrival by city of arrival (YE September 2000 – 2006)

City of arrival	YE Sept 00	YE Sept 01	YE Sept 02	YE Sept 03	YE Sept 04	YE Sept 05	YE Sept 06	% ch 06/05
Sydney	2,116,332	2,221,652	2,034,452	1,962,159	2,116,880	2,223,396	2,194,784	-1%
Melbourne	655,938	722,101	725,935	748,093	842,948	898,887	923,984	3%
Brisbane	816,685	852,661	774,042	792,944	872,975	940,344	934,751	-1%
Perth	400,901	408,284	392,968	403,342	414,859	451,788	438,167	-3%
Adelaide	57,549	58,321	49,491	51,997	63,704	59,996	77,409	29%
Darwin	67,302	66,687	51,966	35,554	30,958	37,402	34,102	-9%
Townsville	6,745	270	273	-	153	1,045	714	-32%
Cairns	285,966	300,178	307,609	301,626	361,093	352,730	334,454	-5%
Hobart	4,570	1,605	6,304	3,524	5,094	3,867	9,282	140%
Broome	-	112	-	-	-	400	307	-23%
Gold Coast	2,290	1,413	2,679	9,335	46,767	66,853	74,302	11%
Other	3,759	1,419	3,733	4,539	2,871	796	-	-
Total	4,418,037	4,634,703	4,349,452	4,313,112	4,758,303	5,037,504	5,022,256	-0.3%

Source: Tourism Research Australia, International Visitors Survey (Base: visitors aged 15 years and over).

Note: arrivals to the Gold Coast are mainly via Brisbane airport

Summary of Key Issues

1. Low Cost Carriers:

- The Low Cost Carrier (LCC) phenomenon has not yet impacted the Japan market; however JALWAYS is a low cost of operation airline and does offer relatively attractive pricing and is picking up the budget end of the market.
- It should be noted that JALWAYS involvement in Hawaii has not delivered results and there may be lessons to be learnt regarding LCC direct to consumer emphasis.

2. Foreign Exchange:

- As outlined earlier in this report, Japan is the market that is most affected by an appreciating A\$.

3. Taxes and Surcharges:

- Surcharges and taxes are not part of published package rates on brochures but rather are advised to the consumer when they go to buy the product.
- The application of the latest fuel surcharges by both QF and JAL have seen Australia placed in the highest category despite travel distances and times especially to Cairns being comparable with the lower category. The current fuel surcharge prices for Qantas and JAL are as follows:

Table 3: Japan competitor airport levies and fuel surcharge list (as at 21 February 2007)

*AUD1=YPN96.08

	Airport (arr+dep)	Fuel (RT)	TOTAL	
	AUD	AUD	AUD	Yen
PAR (CDG)	53.81	210.66	264.47	25,410
LON (LHR)	133.64	166.53	300.17	28,840
LAX (LAX)	68.36	229.00	297.36	28,570
HWI (HNL)	66.51	185.26	251.77	24,190
NYC (JFK)	74.81	229.00	303.81	29,190
SYD (SYD) QF	81.98	279.14	361.12	34,600
SYD (SYD) JL	87.22	270.61	357.83	34,380
CND (YVR)	35.90	124.90	160.80	15,450
ROM (ROM)	23.00	166.53	189.53	18,210
SIN (SIN)	17.28	148.00	165.28	15,880
BKK (BKK)	26.86	100.33	127.19	12,220
DPS (DPS)	0	162.99	162.99	15,660
HKG (HG)	19.67	34.14	53.81	5,170

Sourced by airlines: AF, VS, NW, QF, JL, AC, AZ, SQ, TG, GA, CX

All data includes passenger movement charge and tax

CND – Canada (Vancouver); ROM – Rome (Italy); DPS – Denpasar (Indonesia)

4. Aviation:

Aviation Impacts on Western Japan:

- During 2007, Jetstar will partially replace current JAL and Qantas (previously Australian Airlines) capacity from Western Japan to Australia (any points west of Tokyo, with only Nagoya and Osaka to be served).
- Highlighting the importance of the change, in 2005 just over one in three passengers on services from Japan arrived from Western Japan (Source: DOTARS). To put this in context, Western Japan represented an only slightly smaller inbound market than Korean or Singapore and not much smaller than China.
- Jetstar will service Western Japanese ports (Osaka and Nagoya) while Qantas and JAL will focus on Tokyo (where there is greater business traffic and use of valuable Narita slots).
- The following table highlights that the total seat capacity from for Western Japanese to Australian ports (September 2006 to September 2007) will fall (-11%) with the bulk of these falls focused on Osaka (-21%) while Nagoya gains capacity (13%) to Australia due to change in aircraft type.
- This conclusion masks a strong increase in Qantas Group capacity from Western Japan to Australia (+61%) of 1,945 seats per week or 101,140 seats in a full year. (While not from Western Japan there have also been changes by Qantas to more modern and comfortable A330-300 aircraft from Tokyo to Sydney and Melbourne replacing older B747-300 aircraft).
- Against this JAL reduces capacity by 2,611 seats per week or 135,772 seats in a full year with the cancellation of the Osaka-Brisbane-Sydney-Osaka route (hence the net change of 34,632 seats to Australia from Western Japan

- In addition, Qantas announced seasonal demand driven changes effective from 27 March – 10 May 2007
 - Cairns – Nagoya: QF 59/50 Day 3 (Wed) will not operate except for Golden Week 02 May
 - Cairns – Osaka: QF 112/114 Day 2 (Tues) and Day 4 (Thurs) will not operate
 - Cairns – Narita: QF 69/60 will not operate 12, 18 and 26 April