

Japan's Leading Tourism and Aviation Weekly

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San-Miyanaga Building, 5-12 Moto-Akasaka 1-chome, Minato-ku, Tokyo 107-0051, Japan
Phone: 81-3-3796-6646, Fax: 81-3-3796-6645
mailto:jwtw@jwing.com , http://jwing.com/e/ (English) , http://jwing.com/ (Japanese)
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**JAL CEO highlights his strong wish to achieve a single- year profit*

JAL Group CEO and President Haruka Nishimatsu (Photo) showed his strong wish to achieve a single-year profit for fiscal year of 2006, which is likely to be a big turning point for the future business, at a joint interview with aviation journalists on October 17 this year. Although JAL had a hard time for the first half of FY2006 because of slow recovery of both domestic and international passenger demands and of high fuel price, Nishimatsu is confident that JAL can recover the loss through the second half of FY2006, relying on recovery of passenger demands and fuel surcharges on its international flights.



Also, Nishimatsu mentioned the JAL's strategy for international flight network: "We focused on cutting unprofitable international flights last year. From now on, we will focus on fleet arrangement, carefully looking at each of the current international flight routes." He clarified that JAL stopped reduction of its international flights for the meantime. JAL has a plan to maintain the exiting international flight network with smaller aircraft and to serve more charter flights to resort destinations.

Nishimatsu overviewed the business for the first half of FY2006 at the interview. He first said of the domestic passenger flight business that JAL suffered from low competitiveness in the individual passenger market particularly in April and May this year, however the situation has improved month by month, and JAL accomplished year-on-year growth of domestic flight passengers in August this year for the first time in the last 14 months.

Nishimatsu admitted that JAL has not recovered from downturn of the international passenger flight business in the first half yet, though JAL forecasts that it can recover international passengers for October this year up to 99% of those a year earlier. He explained, however, that JAL is now on the right truck to restore the business with the rise of fuel surcharges.

One of the key points for better financial condition is undoubtedly to improve profitability in the international passenger

flight business. JAL initially aims to balance revenue and expenditure in the business for FY2006, however Nishimatsu revealed that it is still uncertain for JAL to be able to reach the aim because of higher fuel price than it originally expected. Oil price on a Singapore Kerosene basis is now much higher than the JAL's initially estimating \$75 per barrel, which will probably force JAL to need another expenses of 10 billion yen through this fiscal year.

It is true that the business environment surrounding the international flight market is still severe, but JAL plans not to enforce another reduction of its international flights except for some extraordinary reason, or rather to increase flights with small aircraft particularly in the Chinese market. It intends to reduce the ratio of large aircraft fleet (B747 or B777-300) from 62% today to 38% by FY2010.

However JAL will revise its flights between Kansai International Airport and Australia, and Nishimatsu said that it is possible for JAL to tie up with Jet Star, LCC of the Qantas Group, for code-sharing flights.

With regard to the future charter flight operation between Haneda Airport and Hongqiao of China, Nishimatsu also mentioned that there are still a lot of realistic problems to be solved, including departure slots at both airports, although both Japanese and Chinese leaders have agreed to make it possible as soon as possible.

**JAL has decided to cut down commission on international flights to 5%*

JAL Group has recently decided to cut down commission on its international flights for travel agents from 7% today to 5%. The new commission will be effective to all of its international air tickets sold after April 1 2007. Northwest Airlines already began 5% commission on September 1 this year, followed by United Airlines, Continental Airlines, American Airlines and Delta Airlines on October 1 this year. It is certain that the JAL's decision will make an impact on other carriers including ANA.

When the U.S. major carriers have decided to introduce 5% commission in June this year, JAL said that it had still studied the business situation on commission for travel agents of Japan. However the travel industry has surmised that JAL would follow the U.S. carriers someday next year.

JAL took an initiative to cut commission from 9% to 7% in April 2001. This will be the first commission cut since then.

**CTC to develop a new idea to appeal products for Canada to consumers*

Canadian Tourism Commission (CTC) will collect tour plans for Canada from travel companies of Japan to introduce them to general consumers as sample tours. CTC regards the new idea as one of the tourism promotions for Japan-Canada Tourism Exchange Year 2007, which celebrates the 120th anniversary of the beginning of scheduled ship line between Yokohama and Vancouver. For the anniversary, the Ministry of Land, Infrastructure and Transport of Japan and CTC will jointly develop promotional events to activate mutual tourism exchanges between Japan and Canada.

The sample tour plan was announced by CTC at KANATA2006, the workshop for the travel industry of Japan. CTC will select 12 to 20 tours from proposals by travel companies and introduce those to general consumers on its website or on its travel pamphlets.

CTC Managing Director Japan Simon Pitt said, "We would like to introduce experience-typed tours that match our branding 'Keep Exploring.'" CTC will also carry out appointment of a tourism ambassador and photo contest and help promote sister cities exchanges or young generation exchanges. CTC will officially kick off the Exchange Year at "Hakodate Christmas Fantasy" in Hakodate City on December 1 this year, when CTC announces details of promotional events. Hakodate is a sister city with Halifax. Halifax sends a big fir tree to Hakodate every winter for Christmas tree.

The number of Japanese visitors to Canada for the first seven months of this year was down 4% to 210,000 approximately over the same period last year. Pitt pointed out that the largest reason is reduction of air capacities on direct flights between Japan and Canada, 6.5% smaller this year than last year.

As Air Canada (ACA) has suspended its Central Japan International-Vancouver flights and has used smaller aircraft for

its Kansai International-Vancouver flights, the number of Japanese visitors to western Canada was down 9% this year so far. On the contrary, the number of those to eastern Canada was up 11% this year so far probably because of the ACA's changing to bigger aircraft for its Narita-Toronto flights and of the business collaboration with Northwest Airlines (NWA). Pitt said, "We will more focus on collaborations with other airlines in addition to ACA and expand the market by develop new tourist routes."

KANATA 2006 was jointed by airline suppliers of United Airlines, JAL and Cathay Pacific Airways Fukuoka office as well as ACA and NWA. Pitt emphasized that the reduction rate of Japanese visitors was lower than the reduction rate of air seats. For 2007, CTC targets 3% increase of Japanese visitors, though air capacity next year may be the same as this year.

In the meantime, Pitt said that CTC will continue developing its branding "Keep Exploring" next year, making much of business tie-ups with different industries and e-commerce approaches to general consumers.

**JATA survey: package bookings for Europe and China increase in the last three months of 2006*

Japan Association of Travel Agents (JATA) reported on October 18 that package tours bookings for Europe and China have particularly grown for the last three months of 2006, when JATA conducted a seasonal survey to five major whole sellers (JTB, Kinki Nippon Tourist, Nippon Travel Agency, Hankyu Express International and JAL PAK).

The growth rates for Europe are 12.9% in October, 12.1% in November and 19.1% in December, respectively compared to a year ago. Package tour products for Europe are especially preferred by senior travelers. In December especially, each of the whole sellers increase bookings for products incorporating Christmas events.

The growth rates for China are 51% in October, 59.9% in November and 39.9% in December. High business demand particularly boosts the increase of bookings.

On the other hand, the major whole sellers are hard to increase bookings for North America, Hawaii or Guam/Saipan partially because of tighter air seat capacities.

JATA also reported that package tour customers grew by 1.3% in July and 4.1% in August over the same months 2005 respectively, particularly boosted by family travelers during the summer vacation season this year. Preferred destinations were Asia and China, while package tour customers for North America, Hawaii and Oceania decreased generally because of smaller air capacities and lower room availability.

Results of package tour customers in comparison with a year ago:

America/Canada = 90.5% in July, 90.9% in August, 80.5% in September

Hawaii = 90.4% in July, 88.5% in August, 85.0% in September

Guam/Saipan = 93.9% in July, 101.1% in August, 77.6% in September

Europe = 96.8% in July, 108.1% in August, 102.7% in September

Oceania = 92.1% in July, 90.6% in August, 90.5% in September

Asia = 104% in July, 112.3% in August, 94.6% in September

China = 218.9% in July, 184.1% in August, 151.3% in September

Total = 101.3% in July, 104.1% in August, 91.8% in September

Bookings of package tour customers in comparison with a year ago:

America/Canada = 80.8% in July, 71.9% in August, 78.3% in September

Hawaii = 88.5% in July, 89.5% in August, 82.3% in September

Guam/Saipan = 81.2% in July, 83% in August, 87.4% in September

Europe = 112.9% in July, 112.1% in August, 119.1% in September

Oceania = 98.5% in July, 95.8% in August, 82.6% in September

Asia = 96.7% in July, 97.7% in August, 76.8% in September

China = 151% in July, 159.9% in August, 139.9% in September

Total = 97.2% in July, 98.3% in August, 87.7% in September

**FIN succeeds in making a profit on its Centrair flights over just two months*

Finnair (FIN) Director Sales Japan Eero Tammila said at an interview with the Wing Travel Weekly that the airline already succeeded in making a profit on Helsinki-Central Japan International Airport (Centrair) flights over just two months after it started the flight service in June this year. "This is the first experience for us," Tammila added.

FIN succeeds in collecting passengers from Sapporo and Fukuoka by taking advantage of code-share flights with JAL's domestic flights, in addition to those in Chubu area. Also, the airline is favorably exploiting the corporate market, appealing that Helsinki is the nearest gateway to major destinations in Europe or Russia. The Centrair flight service is different from other two flight services for Narita International Airport and Kansai International Airport in that it is boosted by business passengers.

FIN will begin serving four flights a week on Helsinki-Narita route in this coming December by adding one more flight. For next summer, the airline plans to serve daily flights for Kansai and four flights a week for Centrair. "If we can make those additional flights possible, we will serve a total of 15 flights a week between Helsinki and Japan and will be the third largest airline among European carriers in the Japanese market," Tammila said.

**AeroMexico targets load factor of 78% on its new Japan flights*

AeroMexico is preparing to begin serving two flights a week between Narita International Airport and Mexico City on November 18 this year. Vice President Sales Asia, Jeffrey Stern (Photo) said, "The flight will be the first service not only to Japan but also to Asia for us. We would like to introduce a variety of tourism attractions of Mexico to the new market," when he recently visited Japan for presentation to the travel industry of Japan.



Stern also emphasized that the airline aims at load factor of 78% on the Japan flights, highly expecting its new business. Before beginning the new flight service, the airline will develop large-scale promotional campaigns in both Japan and Mexico with investment of \$1 million in total, supported by the government of Mexico.

The Narita-Tijuana-Mexico City flights will be served with B777-200ER with 49 business class seats and 228 economy class seats.

Stern said, "We are looking forward to meeting both leisure and business demands and also pay attention to passenger demand beyond Mexico City." The Japan flights will be able to connected to domestic flights for La Paz of Baja California and Guadalajara at Tijuana on the same day. Also, it is convenient to fly to Cancun or Merida of Yucatan, Lima of Peru or Sao Paulo of Brazil from Mexico City. It is also easy to access from Tijuana to San Diego of America, where a lot of Japanese corporations open their offices.

The new flight will be significant for the travel industry not only in expansion of air capacity on transpacific routes but also in a new access to Latin America after Varig Brazilian Airlines withdrew from the Japanese market. It is also attractive for Japanese travelers to be able to fly into Mexico and other Latin American countries without complicate and time-consuming transfer procedures in the U.S.

**Kansai expects another 60 flights a week for China this winter*

Kansai International Airport Co. Executive Vice President Tadakuni Hirano said at a news conference on October 13 that the airport company expects to operate another 60 passenger and cargo flights a week for China in this winter schedule, though the expectation includes flights not to be applied yet. When some potential Chinese airports ensure departure slots for Japanese carriers, JAL or ANA will increase flights to the airports from Kansai International. ANA has already announced to increase its flights for Xiamen and Dalian this winter.

Several new Chinese carriers are preparing for flying into Japan, possibly into Kansai International: Hainan Airlines-

affiliated Yangtze River Express Airlines, China Southern Airlines-affiliated China Cargo and Postal Airlines or Shenzhen Airlines.

With additional flights for China, Kansai will operate more than 700 international flights a week in this winter schedule, reaching record high level. However, the airport will reduce transpacific and Pacific flights, including suspension of Los Angeles flights by JAL, Dallas/Fort Worth flights by American Airlines, Saipan flights by Northwest Airlines and reduction of Chicago flights by United Airlines.

**Japan and India do not reach an agreement on aviation expansion*

The Japan-India bilateral aviation talks, which were held in New Delhi on October 17 and 18, did not reach an agreement on aviation expansion between both nations. This time the Indian aviation authority required expansion of flight volume for Narita International Airport and extension of the current two flights a week for the fifth flight freedom (approval of air transportation between an airport of Japan and an airport of the third country). However, the Japanese aviation authority did not accept the request from India.

At the same time, the Japanese aviation authority revealed to the counterpart of India that ANA is considering a new daily flight service for Mumbai, however both of the authorities did not agree on it, either.

Today JAL serves three flights a week on Narita-Delhi route (four flights a week in this winter schedule). Also, Air India serves two flights a week on Mumbai-Delhi-Bangkok-Narita route, two flights a week on Mumbai-Delhi-Narita route and three flights a week on Mumbai-Delhi-Hong Kong-Kansai International Airport route.

This was the first bilateral aviation talk between Japan and India for the last 13 years. It is possible that both countries will frequently talk about aviation expansion because India is a promising market for Japan.

**JAL and Galaxy agree on code-share cargo flights*

JAL announced on October 12 that it has reached an agreement with Galaxy Airlines, a start-up cargo operator, for code-share flights between Haneda and New Kitakyushu Airport and Naha Airport. After the business application is accepted by the Ministry of Land, Infrastructure and Transport, the agreement will be effective on November 7 this year. With the code-share flights, JAL will strengthen the midnight cargo transport business in the domestic market.

JAL invests 10% of Galaxy Airlines' capital and ties up with the airline for a wide variety of business fields, such as operation, maintenance or airport handling.

JAL expects to have revenue of 1 billion yen approximately by carrying five tons a flight, totaling 6,000 tons annually, on the code-share flights with Galaxy Airlines. JAL will probably offer both container rate and kilogram rate for not only cargos from Sagawa Express, the largest investor for Galaxy Airlines, but also other cargos.

Galaxy Airlines was established in May 2005 and acquired an air transport license from the Ministry on September 1 this year. It plans to begin serving six return flights a week with an A300B4-622R on Haneda-New Kitakyushu route and Haneda-Naha route on October 31 this year.