

JAPAN AVIATION PROFILE

Understanding the Japan to Australia Aviation Environment

This briefing has been prepared by the Tourism Australia Aviation & Economics Team, but was significantly assisted by the research of the Centre for Asia Pacific Aviation and data from Air Transport Intelligence, Bureau of Infrastructure, Transport and Regional Economics and Department of Immigration and Citizenship.

At a Glance

Arrivals Growth		Direct Seats		Load Factors		Major Carriers		Seasonal Peaks	Aus. Ports Serviced	Origin Traffic
2007	-12%	2007	1mil	2006	71%	Qantas	30%	January, February,	6/8	82% High proportion of traffic is Japanese residents
2008(F)	-3%	% ch	-9%	2007	72%	Japan Airlines & JALways	20%	July, October, December		
2009(F)	+1%	Rank	4	Nat. Av.	74%					

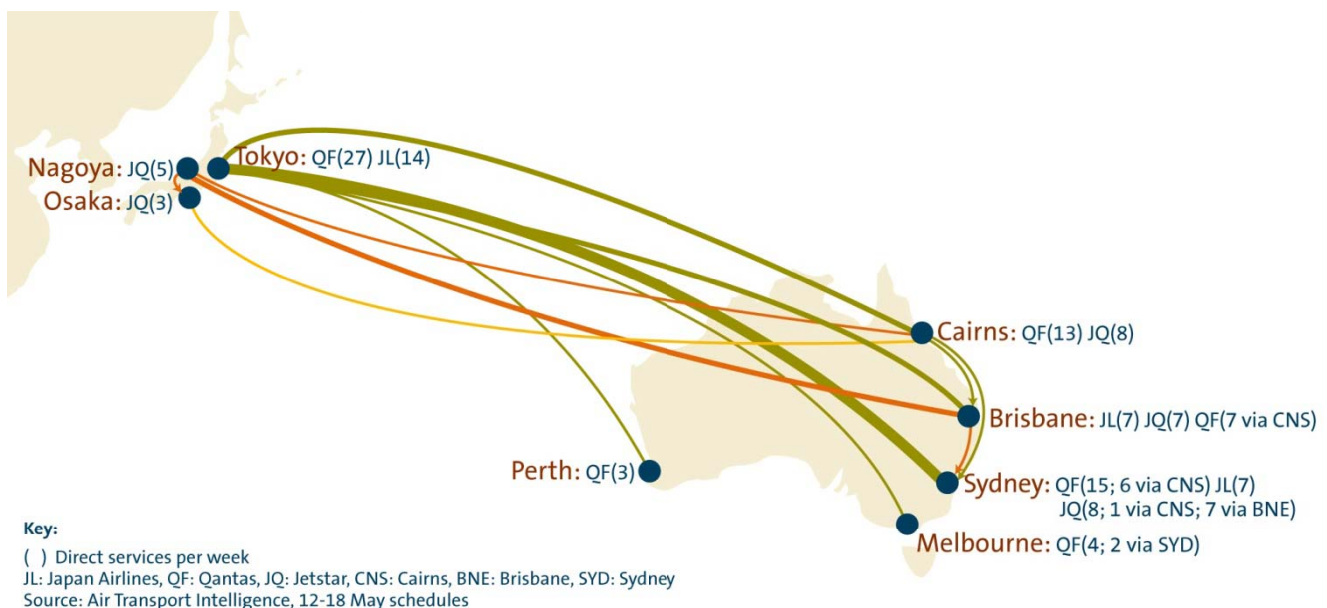
(F) Forecast. Source: Tourism Forecasting Committee, 2007 Issue 2

Japan is an important inbound market for Australia that has been hit hard by the declining value of the Japanese yen against the Australian dollar and demographic change within Japan. In 2007, seat capacity from Japan to Australia fell by 9%, contributing to a fall of 16% between 2005 and 2007.

Seat capacity is expected to fall even faster in 2008 with significant Qantas group reductions effective September and December already announced, particularly impacting Cairns and Melbourne (see Looking Ahead Section). A key aviation related challenge for inbound Japanese market is to minimise the impacts of the declining capacity and monitor load factors to ensure sufficient capacity is provided.

Coming into Australia

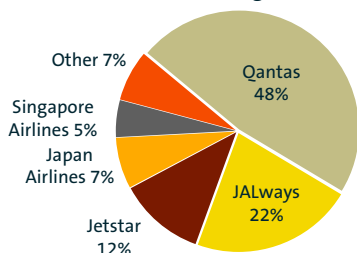
Tokyo-Sydney is the busiest route with around a third of direct capacity from Japan to Australia operated on this route. Similarly, Tokyo-Brisbane and Tokyo-Cairns are also major routes as at May 2008



Airlines on the Route

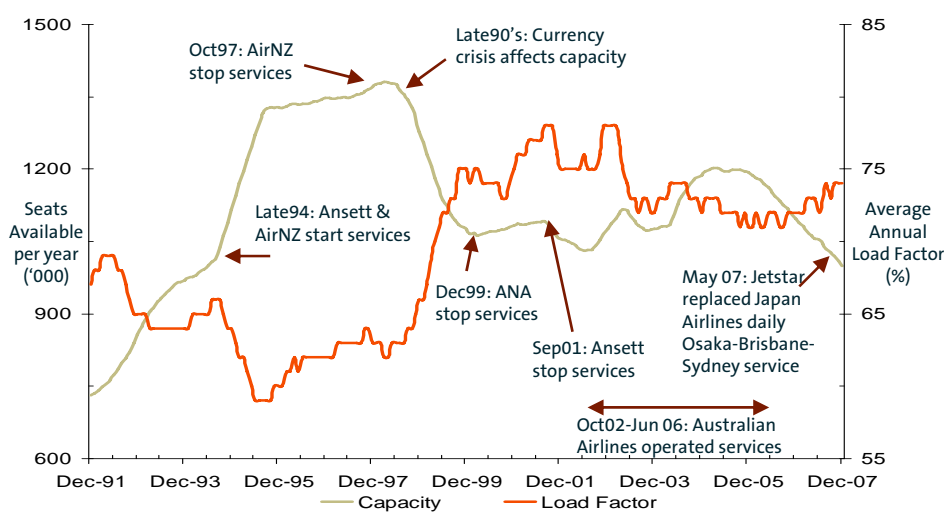
Qantas increased its share on the route in **2007** with almost half of all Japanese tourists entering Australia on Qantas and a further 12% on Jetstar in 2007. In **2006 and 2007** Japan Airlines transferred services to JALways, its lower cost subsidiary, as reflected in the change in market shares.

Share of Passenger:



Airline	2003	2004	2005	2006	2007
Qantas	33%	33%	32%	43%	48%
JALways	0%	0%	0%	3%	22%
Jetstar	0%	0%	0%	0%	12%
Japan Airlines	35%	32%	33%	30%	7%
Singapore Airlines	4%	4%	4%	5%	5%
Other	29%	31%	31%	19%	7%
Total	100%	100%	100%	100%	100%

Direct Capacity: Japan to Australia



In **2007**, direct capacity on the Japan-Australia route fell 9% year-on-year. This fall was driven by Japan Airline reductions and the cessation of Australian Airlines.

This route is highly seasonal, with peak periods in January, July and October/November and trough periods in April to June, August and December. This suggests that there are marketing opportunities to stimulate inbound tourism from Japan in the trough periods as there will be substantial spare seat capacity during these times.

Bilateral Capacity Restrictions: There are currently no binding bilateral capacity constraints between Japan and Australia. Under the current air services agreement, there is approval for 37.5 frequencies (approx. 15,800 seats per week) with Japanese carriers using 35 % of their allowed frequencies and Australian carriers using 78%. The agreement was expanded in January 2006, to include enhanced code share arrangements on international and domestic services. During the last year Japan Airlines became a full member of Oneworld. This facilitates enhanced co-operation and code sharing with the Qantas group. Qantas gains from improved access to domestic Japan Airlines services as Japan Airlines gains improved access to Qantas/Jetstar services.

- The outlook for the Japan-Australia route does not look positive, at least in the short term. In June **2008**, the Qantas group announced major capacity cuts (attributed to rising fuel prices) reducing direct services to Japan by an estimated 22% in a full year. From September 2008, Qantas will withdraw its two weekly Tokyo-Melbourne services and a month later Jetstar's daily Osaka-Brisbane-Sydney services will be operated via the Gold Coast in lieu of Brisbane (and only five tags to Sydney). From December 2008, Jetstar will withdraw all Cairns-Osaka-Nagoya services, Qantas will reduce its Tokyo-Sydney services from nine per week to seven and Qantas' double daily Tokyo-Cairns services will be replaced by a daily Jetstar service. Jetstar, however, plans to add five weekly Tokyo-Gold Coast services but no timeframe was disclosed. These reductions will have major implications for the Cairns region (which loses an estimated 60% direct seats from Japan) and Melbourne with no direct access from December 2008.
- Despite Japan Airlines return to profitability in year ended March 2008, it is unlikely the carrier will increase services to Australia in the near future. Australia has become less of a priority as it focuses on domestic and short haul international markets like China. Japan Airlines plans to expand international routes through codeshares, shift more operations to lower cost subsidiaries (eg. JALways Tokyo-Brisbane services) and operate more charter services (e.g. Alice Springs, Ayers Rock and Darwin). Greater fuel surcharges continue to be applied to Australia and most long-haul destinations. Japan Airlines plans to retire up to 46 aircraft by 2010, largely replacing them with small and medium aircraft including the B787s.
- With these changes we expect to see the importance of other indirect carriers such as Singapore, Cathay and Continental increase.