

## J-WING TRAVEL

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### Japan's Leading Tourism and Aviation Weekly

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#### **This Week Headline**

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#### **\*ANA to make up a midterm corporate plan with "innovation" and "globalization"**

ANA Group released its midterm corporate plan for the next four fiscal years from FY2008 to FY2011 on January 31 to aim at revenue of 1,720 billion yen, operating profit of 120 billion yen, recurring profit of 83 billion yen and net profit of 48 billion yen on a consolidated finance basis in FY2011.

Under the new corporate plan, ANA will make efforts to grow its business further by introducing fuel efficiency aircraft including B787, taking advantage of IT or outsourcing part of indirect businesses. Main business concepts are "innovation" and "globalization" for growing strategies in

preparation for further aviation liberalization, rise of fuel price, the extension of the Narita 2nd runway and the re-expansion of Haneda capacity.

Although a new business approach to low-cost carrier (LCC) has drawn attention, the midterm corporate plan does not mention it. The theme will be discussed by the new ANA division Asia Strategy Group.

With regard to the fleet plan, ANA will increase from 216 aircraft today to around 240 aircraft by the end of FY2011. During the midterm corporate plan, ANA will invest a total of 630 billion yen to introduce 26 B787s, five B777-300s and 28 B737-700/800s, while all of B747-400s for international flights and F50s are retired. Under the new fleet plan, the ANA's fuel efficiency aircraft including next generation B737, B787 and B777 will account for 50% of the whole fleet. At the same time, ANA will seriously discuss introduction of new regional jet aircraft.

In the viewpoint of "innovation," ANA will focus on finding new ways of thinking and employing new organizational structures, new technologies and new systems to expand its businesses while maintaining the staff headcount around the present levels. Through such efforts, ANA aims to improve productivity per person by 20% in FY2011. Also, it will try to increase international ASK by 17%, domestic ASK by 1%, freighter TK by 302% and employees by 3% in FY2011 compared to FY2007.

In the viewpoint of "globalization," ANA will focus on expansion of international passenger flights and cargo flights. For the international passenger flight network from Narita International Airport, ANA will meet business trip demand on Europe or North America routes and expand the business scale on China and Asia routes by 11%. Also, ANA will strengthen the flight network to Asia from Haneda Airport, which will become a 24-hours airport.

For the cargo business, a new logistics base for the Asia market will be established in Okinawa in the second half of FY2009. During the midterm corporate plan, ANA will increase the freighter fleet from six today to 14, including four large freighters.

For the domestic flight business, ANA will make efforts to improve the load factor from 65% today to around 70% by taking advantage of "Simple Rotation" of the fleet. Also, it will further enhance business relations with start-up airlines.

The followings are consolidated financial goals by fiscal year:

<FY2008>

Revenue = 1,510 billion yen

Operating profit = 80 billion yen

Recurring profit = 52 billion yen

Net profit = 27 billion yen

<FY2009>

Revenue = 1,570 billion yen

Operating profit = 80 billion yen

Recurring profit = 47 billion yen

Net profit = 26 billion yen

<FY2010>

Revenue = 1,660 billion yen

Operating profit = 90 billion yen

Recurring profit = 52 billion yen

Net profit = 27 billion yen

<FY2011>

Revenue = 1,720 billion yen

Operating profit = 120 billion yen

Recurring profit = 83 billion yen

Net profit = 48 billion yen

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**\*Foreign visitors reached record-high 8.5 million in 2007**

Japan National Tourist Organization (JNTO) recently reported that the number of foreign visitors to Japan in 2007 (January to December 2007) was up 13.8% or 1,0151,00 to record-high 8,349,200, more than the initial goal of 8 million, compared to 2006. Korean visitors, which form the biggest market, increased by 22.8% to 2,600,800, and Chinese visitors increased by 16.2% to

943,400, ranked up to the 3rd from the 4th largest market last year.

Among the 12 focal markets, 11 markets resulted in record-high visitors to Japan, except America with 0.1% decrease. A share of foreign visitors from the 12 markets is 88.3% of the total in 2007, 0.3 points higher than 2006.

JNTO President Tadatoshi Mamiya said that effective promotion of Visit Japan Campaign, relatively weak yen and active efforts to receive foreigners by local communities were key factors for the large growth. For 2008, he forecasts that the upward trend will continue. The government has goals of 9 million foreign visitors in 2008 and 10 million foreign visitors in 2010.

JNTO will particularly focus on increasing visitors from Korea and China through 2008 and also make efforts to increase visitors from France, who increased remarkably in 2007.

On the contrary, the number of Japanese departures overseas was down 1.3% to 17,298,000 in 2007, as reported before, mainly due to relatively weak yen, rise of fuel surcharges and airfares and less-popularity of overseas travel among young generation.

The largest market was Korea, as mentioned above. The second largest market was Taiwan with 5.8% increase to 1,385,200 in 2007. Visitors from Hong Kong, who forms the 5th largest market, also increased by 22.7% to 432,100 in 2007, compared to 2006. Thailand and Singapore resulted in 33.2% increase to 167,500 and 31% increase to 151,800 respectively.

Among European countries, visitors from France remarkably increased by 16.9% to 137,700 in 2007 compared to 2006.

The followings are visitor results by major market in 2007:

Korea = 2,600,800 (up 22.8%)

Taiwan = 1,385,200 (up 5.8%)

China = 943,400 (up 16.2%)

America = 815,900 (down 0.1%)

Hong Kong = 432,100 (up 22.7%)

Australia = 222,500 (up 14.0%)  
England = 221,900 (up 2.5%)  
Thailand = 167,500 (up 33.2%)  
Canada = 166,000 (up 5.4%)  
Singapore = 151,800 (up 31.0%)  
France = 137,700 (up 16.9%)  
Germany = 125,300 (up 8.6%)

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**\*JHTC is launched to send 1.54 million Japanese tourists to Hawaii in 2011**

Japan Association of Travel Agents (JATA) and Hawaii Tourism Authority (HTA) launched Japan-Hawaii Tourism Conference (JHTC) on January 25 and signed MOU to make up an action plan for the next four years from 2008 to 2011 for a goal of 1.54 million Japanese visitors to Hawaii in 2011.

Also, the pair agreed to make joint efforts to achieve goals of extending the average travel days per person from 5.57 days now to 6.60 days and increasing the average local spending per person from \$270 now to \$310.

JATA Chairman Koji Shinmachi said, "2.2 million Japanese visited Hawaii in 1997, but the annual number decreased to around 1.3 million in 2007. We hope to recover and to increase the annual number of Japanese visitors to Hawaii." Hawaii is a key destination for Japan to achieve the goal of 20 million Japanese outbound travelers in 2010, he added.

HTA President and CEO Rex Johnson said, "We understand Japan is an important market for us, as Japanese visitors account for around 20% of all travelers to Hawaii. Hawaiian cultures, including hula, are drawing attentions even in local regions of Japan. We expect that JHTC will play a key role to expand the market." Hawaii Tourism Japan (HTJ) is developing "So Much More Hawaii" campaign for the leisure market and MICE opportunities for the business market.

JATA places an action plan for Hawaii as a leading effort of "Visit World

Campaign (VWC)." A VWC destination strategy committee of JATA will work together with the working group of JHTC to develop tourism promotions for Hawaii.

Regarding tourism strategy for Hawaii, the Hawaii sub-committee of the U.S.-Japan Tourism Export Expansion Initiative discussed for the past five years and adopted the following seven focal actions:

- 1) Transformation of business approach from quantity to quality with high value-added products containing new attractions of Hawaii
- 2) One More Stay-encouraging tourists to stay in other islands than Oahu and to stay longer
- 3) Taking advantage of charter flights
- 4) Market approaches by generation and by travel style, focusing on three-generations family, seniors and anniversary travelers
- 5) Development and promotion of long-stay programs for Japanese
- 6) Development of educational programs
- 7) Bringing up Hawaii specialists in the travel industry

The four-years action plan reflects the seven focal actions, targeting 1.28 million Japanese visitors in 2008, 1.33 million in 2009, 1.43 million in 2010 and 1.54 million in 2011. The action plan also includes promotion of flight increase to airlines, such as increase of scheduled flights to Big Island to four flights a day, new direct scheduled flight service to Maui in 2010 or scheduled flights between Haneda Airport and Hawaii in 2011.

With regard to charter flights, JHTC will encourage airlines of Japan, U.S. and Hawaii to serve 200 one-way flights at least in 2008 and to 500 one-way flights in 2011 after increase of 100 flights every year. Shinmachi said, "The point is how many charters can be served from local regions."

JHTC will hold a meeting twice a year (August or May and September or October), jointed by the following members:

JTB, KNT, Nippon Travel Agency, Hankyu Express International, HIS, JALPAK, ANA Sales, R&C Tours and JTB World Vacations from the travel industry

JAL International, ANA, Northwest Airlines, United Airlines, Continental

Airlines, China Airlines, Hawaiian Airlines and Aloha Airlines from the airline industry

Outrigger Enterprise Group, Four Seasons Hotel & Resort, Japan Starwood Hotel, Hyatt Resorts Hawaii, Marriott International, Hilton Sales Worldwide and Pacific Resort from the hotel industry

Watabe from the wedding industry

Hertz Asia Pacific, Top Rep Inc. and Dollar Rent-A-Car from the rent-a- car industry

HTJ, Oahu Visitors Bureau, Big Island Visitors Bureau, Hawaii Visitors & Convention Bureau and JATA

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### **\*HTJ to propose new travel styles in Hawaii**

Hawaii Tourism Japan (HTJ) hosted Hawaii Seminar for the travel industry in Tokyo on January 25 to show its marketing plan this year. HTJ is developing "So Much More Hawaii" campaign, based on the key concept of "Discover Aloha," to appeal unknown tourist attractions and experience-typed tourism resources. By introducing new travel styles, HTJ hopes to increase travel days and local spending of Japanese visitors in Hawaii.

HTJ Executive Director Takashi Ichikura said at the seminar, "Hawaii is still a popular destination, as JTB Report says that Hawaii ranks the 1st in the most popular destination for ten consecutive years. Under the current circumstance that the outbound travel market is inactive, we are exploiting new marketing approaches."

HTJ is particularly focusing on high-yield markets, as flight seats for Hawaii are actually decreasing. Target segments are baby boomer & active senior travelers, families (mother and daughters or three generations families) and romance travelers (wedding and honeymoon).

At the same time, HTJ is making efforts to increase Japanese tourists in shoulder season in February, April, May, June, October and November by planning new events. Regarding MICE as an important market, HTJ is

exploiting new demands in cooperation with Hawaii Visitors & Convention Bureau (HVCB).

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**\*The lower limit rule of PEX airfare is officially abolished**

The Ministry of Land, Infrastructure and Transport officially announced on January 28 that the 70% lower limit rule of IATA-PEX airfare on international flights from Japan would be abolished on April 1 this year. Also, regarding inclusive tour airfare (IT airfare) on international routes without any IATA-IT airfares, the upper limit of carrier IT airfare will be IATA-PEX airfare.

JAL has already decided that the lowest airfare on its Tokyo-Vancouver flight for FY2008 will be 50,000 yen, 80% discount of IATA-PEX airfare, for instance. It will offer new airfares on its Asia and Oceania flights, depending on the market demands.

On Europe flights from Japan, IATA-PEX airfare will be the upper limit of carrier IT airfare because IATA-IT airfares are abolished after the new Flexfare system functions after April this year.

It is not probable that airlines will offer largely discounted IATA- PEX airfares under the current severe business condition, however it is certain that airline will further take advantage of IATA-PEX airfares. Also, it is uncertain how Individual Inclusive Tour airfare (IIT airfare) for travel companies can be treated from now on.

Airlines' initiatives in terms of airfares as well as seat supplies will probably be strong in the travel market, particularly in the package tour business.

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**\*IATA normal airfares on Europe flights rise by 13 to 18% on weekdays**

IATA has recently decided airfares of flights between Japan and Europe for FY2008 (April 1 2008 to March 31 2009), based on the new airfare system

"Flexfare" for the first time. IATA-PEX airfare between Tokyo and London or Paris, for example, will be 470,000 yen, 113.6% more than the basic weekday airfares in FY2007 because the current weekday and weekend airfares and seasonal airfares are terminated.

According to the new airfare system, 66,000 yen of the JAL's original airfare "Web Goku 14" on a flight from Tokyo to Europe, which has just been applied, is equivalent to 86% discount of IATA-PEX airfare. As reported, the Ministry of Land, Infrastructure and Transport has decided to abolish the lower limit rule that up to 70% of IATA-PEX airfares can be discounted.

New IATA normal airfare for business class and first class on a flight between Japan and Europe will rise by 10% in weekend and by 13% to 18% in weekday, compared to FY2007. Weekday airfares will relatively high because the separation between weekend and weekday airfares is abolished on Europe flights after April this year.

Regarding new IATA normal airfare for economy class, Y1 airfare will rise by 5.8% to 6.3% in weekend and by 14% in weekday on London, Paris or Rome flights.

IATA-PEX airfares will be flat through a year because the separation between weekend and weekday airfares and seasonal airfares are abolished in the same manner as IATA normal airfares. In addition, minimum stay will be extended from three days today to six days.

The followings are return flight airfares on major routes for FY2008 and the rise percentages in comparison with FY2007:

<IATA normal airfare for first class>

1,946,100 yen on Amsterdam, Frankfurt, London, Milan, Rome and Paris flights

up 13.9% in weekday

up 10% in weekend

1,583,300 yen on Moscow flight

up 18.8% in weekday

up 13.7% in weekend

<IATA normal airfares for business class>

1,092,300 yen on Amsterdam, Milan and Rome flights

up 16.5% in weekday

up 9.5% in weekend

1,092,800 yen on Frankfurt, London and Paris flights

up 16.5% in weekday

up 9.5% in weekend

891,000 yen on Moscow flight

up 18.8% in weekday

up 10% in weekend

<IATA normal airfares for economy class>

849,900 yen on Amsterdam, Milan and Rome flights

up 14.4% in weekday for Y1

up 5.8% in weekend for Y1

up 38.4% in weekday for Y2

up 26.1% in weekend for Y2

853,600 yen on Frankfurt, London and Paris flights

up 14.9% in weekday for Y1

up 6.3% in weekend for Y1

up 39.0% in weekday for Y2

up 26.6% in weekend for Y2

719,200 yen on Moscow flight

up 21.1% in weekday for Y1

up 10.0% in weekend for Y1

up 46.5% in weekday for Y2

up 30.5% in weekend for Y2

<IATA-PEX airfares>

426,000 yen on Amsterdam, Milan and Rome flights

up 93.6% in weekday (basic)

no-change in weekend (peak)

470,000 yen on Frankfurt, London and Paris flights

up 113.6% in weekday (basic)

up 10.3% in weekend (peak)

425,000 yen on Moscow flight  
up 136.1% in weekday (basic)  
up 10.1% in weekend (peak)

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**\*ANA succeeded in both revenue and profit for three quarters of FY2007**

ANA released the consolidated financial result for the first nine months of FY2007 (April 1 to December 31 2007) on January 31, reporting that it posted net profit of 117.9 billion yen, 176.9% more than the same period of FY2006, primarily boosted by the sales of ANA Group's hotel assets on June 1 last year. Revenue reached 1,141.5 billion yen, 0.6% more than a year ago, as increase of the business trip demand on its international flights offset decrease of its domestic flight passengers.

Operating expense increased by 0.5% to 1,047.5 billion yen for the first nine months of FY2007, compared to a year ago, because of increase of fuel expense and depreciation on aircraft purchase. However, ANA successfully posted operating profit of 93.9 billion yen (up 2.5%) and recurring profit of 78.7 billion yen (up 8.3%).

Revenue of the air transport business segment reached 997.2 billion yen, 47.2 billion yen more than a year ago, and operating profit increased by 7.5 billion yen to 87.3 billion yen.

The travel business segment increased revenue by 7.2 billion yen to 165.4 billion yen, but decreased operating profit by 0.4 billion yen to 2.4 billion yen,

Revenue of other business segments decreased by 1.4 billion yen to 146.7 billion yen, but operating profit increased by 0.4 billion yen to 4.6 billion yen.

For the domestic passenger flight business, passenger unit price was 4.1% higher than a year ago, although the total number of passengers was down 1.8% to 34,781,000. Accordingly revenue of the business for the first nine months of FY2007 was up 2.2% to 569 billion yen over the same period of FY2006. The load factor was 65.6%, dropping from 67% a year ago.

For the international passenger flight business, ANA increased revenue by 14.3% to 239.7 billion yen, as it succeeded in increasing carrying passengers by 7.4% and passenger unit price by 6.4% compared to a year ago. The load factor was 75.8%, slightly lower than 76.7% a year ago.

Revenue of the domestic cargo flight business was down 0.4% to 23.3 billion yen with transporting volume of 338 million tons (up 0.2%). Revenue of the international cargo business resulted in 16.4% increase to 53.9 billion yen by transporting cargos of 1,218 million tons (up 30.9%).

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**\*ANA Group resulted in slight increase of its int'l flight passengers in December 2007**

ANA recently reported that the Group carried 373,475 passengers on its international flights in December 2007, just 1.3% more than the same month 2006. ASK and RPK were up 0.6% and 3.0% respectively, compared to a year ago. The monthly load factor was 72.5%, lower than 76.2% in November 2007.

The passenger results by destination are as follows:

<North America>

76,938 passengers (95.7%)

74.8% load factor

844,730 thousand seat-kilometers (94.1%)

631,468 thousand passenger-kilometers (98.6%)

<Europe>

45,112 passengers (104.1%)

84.4% load factor

510,716 thousand seat-kilometers (96.0%)

431,057 thousand passenger-kilometers (104.1%)

<Asia/Oceania>

251,425 passengers (102.7%)

64.6% load factor

1,021,681 thousand seat-kilometers (109.5%)

660,362 thousand passenger-kilometers (106.7%)

The ANA Group slightly decreased its domestic flight passengers in December 2007 by 0.5% to 3,444,481 compared to the same month 2006. The monthly load factor was 58.4%, below 60% for the first time since April 2007. ASK and RPK were up 0.2% and 0.6% respectively.

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**\*Narita steadily increased foreigner passengers in December 2007**

Narita International Airport Co. recently reported the preliminary number of passengers in December 2007 totaled 2,889,182, almost the same as a year ago. The number of international flight passengers was 2,787,857, broken down into 1,472,921 Japanese (down 3%), 779,240 foreigner passengers (up 8%) and 535,696 transits (down 3%).

Narita handled a total of 16,428 aircraft take-offs and landings in December 2007, almost the same as a year ago. The number of those for international flights was 15,341, broken down into 12,840 for passenger flights (up 1%), 2,307 for cargo flights (down 3%) and 194 for others (down 4%).

Cargo volume in December 2007 was up 2% to 197,329 tons, broken down into 97,329 tons for loading and 99,933 tons for unloading.

The number of passengers for the full year of 2007 (January to December) resulted in 1% increase to 35,556,893, compared to 2006. Out of the yearly total, international flight passengers were up 1% to 34,315,922, broken down into 19,025,989 Japanese (down 1%), 9,100,561 foreigners (up 9%) and 6,189,392 transits (down 3%). Domestic flight passengers were up 11% to 1,240,971.

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