

Japan's Leading Tourism and Aviation Weekly

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This Week Headline

*JATA survey shows bright prospect for the travel market this summer	1
*The market scale of B to C accommodation and travel reached 359.5 billion yen.....	2
*Japanese departures resulted in the highest monthly record in May	2
*JAL PAK gave up resumption of dividend due to operating loss for FY2005	3
*UAL and COA follow NWA and AAL to cut commissions to travel agents	3
*Narita enjoyed 4% increase of passengers for May	3
*Kansai resulted in 4% growth of passengers for May	5
*JAL Ways suffered from 98.6% reduction of net profit	5
*ANA to introduce LOSA for the first time in Japan	5

****JATA survey shows bright prospect for the travel market this summer***

Japan Association of Travel Agents (JATA) reported on June 28 that both of the overseas and domestic travel markets enjoyed higher DI (Diffusion Index) than originally expected in its latest travel market trends survey. Also, the survey finds that higher DI will be expected this summer from July to September mainly because of favorable recovery of the Japanese economy.

In the overseas travel market, DI was minus 18 for the first three months of 2006, but it recovered to zero for the three months from April to June this year and is expected to reach plus 15 for the next three months from July to September this year. For the three months from April to June, the recovery primarily resulted from better holiday-line during Golden Week this year, positive effects on travels in Europe by World Cup Soccer in Germany and steady recovery of tourist demand for China, according to JATA.

For the next three months, every business segment marks high DI: plus 22 for full service travel agency, plus 24 for overseas travel wholesaler, plus 22 for overseas travel specialist agency and plus 28 for in-house travel agency.

The survey results of overseas travel demand by customer segment for the next three months are plus 7 for silver (over 60 years old), plus 4.4 for senior (from 45 years old to 59 years old), minus 5 for family, minus 13 for office lady, minus 19 for incentive and minus 30 for honeymoon.

The survey result of overseas travel demand by destination for the next three months are minus 3 for Hawaii, minus 16 for North America, plus 6 for Europe, minus 31 for Oceania, minus 8 for Micronesia, plus 6 for China and plus 5 for Asia.

For the domestic travel market, the survey shows DI will improve to plus 8 for the next three months from minus 4 for the three months from April to June.

The survey asks participating companies to rate their sales results for each destination and customer segment by choosing

from three categories: “good,” “average” and “poor”. Respondents indicate “do not handle” for items outside their business scope. Each share of “good,” “average” and “poor” is then divided respectively by the denominator, which is equal to the total number of responses minus the “do not handle” and “no reply” responses. Finally each share is processed into the Diffusion Index (DI). The highest possible index figure is +100, and the lowest is -100

**The market scale of B to C accommodation and travel reached 359.5 billion yen*

The Ministry of Economy, Trade and Industry (METI), Next Generation Electronic Commerce Promotion Council of Japan (ECOM) and IDC Japan jointly released the result of market research on electronic commerce for FY2005 on June 26, reporting that the market scale of B to C accommodation and travel reached 359.5 billion yen with EC rate of 3.7% for FY2005. The survey also shows that the market scale of B to C accommodation and travel in the U.S. was 535.1 billion yen with EC rate of 2.4% for FY2005. It is noteworthy that EC rate in the segment was higher in Japan than in the U.S., though the market scale of the segment was still larger in the U.S. than in Japan.

Overall, the B to C market scale of Japan was 3,500 billion yen with EC rate of 1.2%, while that of the U.S. was 15,900 billion yen with EC rate of 2.4%.

Higher EC rates in Japan than in the U.S. were found in the market segments of furniture and household goods, appliance, medical cosmetic as well as accommodation and travel, according to the survey result. The market scale of B to C transportation, including B to C air ticket sales, reached 189.6 billion yen, much smaller than 519.1 billion yen in the U.S.

The largest market scale of B to C in Japan was 858.1 billion yen in the information communication segment, which included distribution of digital contents and software sales, followed by 832.2 billion yen in the general retail segment, 379.7 billion yen in the appliance segment and 359.5 billion yen in the accommodation and travel.

Also, the consumer survey on EC finds that ratio of EC purchase on the average monthly spending was about 3.1% in Japan, lower than about 4.87% in the U.S. Ratios of EC purchase by age segment were 7.9% in 15 to 19 years old, 4.2% in 20 to 29 years old, 3.3% in 30 to 39 years, 2.6% in 40 to 49 years old, 1.3% in 50 to 59 years old and 0.6% in 60 to 64 years old.

The survey also finds that EC purchases through mobile devices accounted for 79% of all EC purchases in the 15 to 19 years old segment, 40% in the 20 to 29 years old segment, 10% in the 30 to 39 years old segment and 9% in the 40 to 49 years old segment.

The company survey on B to C finds that website or Internet was used as promotion media for EC selling more frequently than the conventional media, such as magazine, newspaper, TV or Radio. Promotions through mobile Internet were highly developed in Japan.

Payments on EC purchases were concentrated in credit card, cash, bank transfer and payment on delivery in Japan, according to the survey.

**Japanese departures resulted in the highest monthly record in May*

Japan National Tourist Organization (JNTO) recently reported that the number of Japanese departures for May this year was up 8.8% to 1,373,000 over the same month last year, resulting in the highest monthly record ever. The reason is that more Japanese departed overseas in May during Golden Week this year. For the first two months of FY2006, the number of Japanese departures was up 1.8% to 2,665,000 over the same period last year. For the first five months of 2006, the number of Japanese departures was up 0.5% to 6,985,000 over the same period last year.

Foreigner arrivals also resulted in the highest monthly record ever in May this year, as the number of those was up 10.4% to 586,000 over the same month last year particularly because of more Chinese and Korean visitors to Japan. For the first five months of 2006, the number of foreign arrivals was up 9.5% to 2,965,500 over the same period last year. To achieve the national target of 7.5 million foreign visitors in 2006, year-on-year growth of 11.5% will be required for the rest of months.

JNTO disclosed arrivals from major foreign countries in May and for the first five months of 2006 as follows:

Korea = 161,100 (up 41.1%)/839,600 (up 21.5%)
 Taiwan = 109,800 (down 4.0%)/535,600 (up 7.7%)
 China = 64,400 (up 27%)/333,800 (up 29.8%)
 Hong Kong = 23,600 (up 42.8%)/149,400 (up 28.4%)
 U.S. = 12,300 (down 1.1%)/327,200 (down 4.3%)
 U.K. = 17,100 (up 9.0%)/91,600 (down 4.5%)
 Germany = 9,900 (up 2.3%)/48,900 (even)
 France = 10,300 (up 12.2%)/48,800 (up 3.3%)

**JAL PAK gave up resumption of dividend due to operating loss for FY2005*

According to the financial result for FY2005 (April 1 2005 to March 31 2006), JAL PAK has decided to give up repaying dividend although it aimed at resumption of dividend with operating profit under "JAL PAK Midterm Vision," the three-years corporate plan starting from FY2004. The JAL-affiliate travel company decreased operating revenue by 8.1% to 107,361 million yen for FY2005 compared to FY2004. While it successfully reduced operating expenses by 7.7% to 108,936 million yen, it was forced to post operating loss of 1,575 million yen for FY2005, more than operating loss of 1,232 million yen for FY2004.

However, earning non-operating profit of 1,901 million yen, JAL PAK posted ordinary profit of 304 million yen for FY2005, 14.3% more than a year earlier, and ensured net profit after tax of 158 million yen for FY2005, though it was 54.9% less than a year earlier.

For the first half of FY2005, the JAL PAK business was damaged by the aftermaths of Tsunami disaster in December 2004 and a series of the anti-Japan demonstrations in China in April 2005. For the second half of FY2005, it suffered from the reduction of JAL international flights on resort routes and negative influences from the Bali bombing particularly.

Under the severe circumstance, JAL PAK has enhanced package products for individual travels and high-quality package products for senior travelers. For the FIT market, it has focused on simplification of sales contracts on "Tabi Pon (combination of travel parts by individual)," extension of sales contractors and improvement of services for "FIT Reservation Center." Also, JAL PAK has started dealing with Australia in addition to Hawaii for "FORME (integration of individually arranged travel and packaged travel)" brand.

Despite the business efforts, JAL PAK reduced package tour customers by 6% to 444,868 and arranged travel customers by 17% to 346,016 for FY2005, compared to FY2004. A total of customers also decreased by 11% to 790,884 for FY2005, compared to FY2004.

Under the new business system to integrate production with selling, JAL PAK will try to improve profitability and to reform cost structure to consolidate its business basis in FY2006, the last fiscal year for the midterm corporate plan.

**UAL and COA follow NWA and AAL to cut commissions to travel agents*

United Airlines (UAL) and Continental Airlines (COA) have decided to cut commissions to travel agents from 7% to 5% on all air tickets sold in Japan from October 1 this year. As reported before, Northwest Airlines (NWA) will enforce the 2% commission cut on its air ticket sold in Japan from September 1 this year, and American Airlines (AAL) will also follow NWA on its air tickets sold in Japan from October 1 this year. Delta Airlines may follow the U.S. carriers. JAL and ANA still consider whether or not to cut commissions in the same manner as the U.S. carriers, however the travel industry predicts it is probable for JAL and ANA to decide to enforce it early next year or spring next year.

**Narita enjoyed 4% increase of passengers for May*

Narita International Airport Co. reported on June 29 that the number of passengers for May this year was up 4% to 2,527,639 over the same month last year. The monthly total consisted of 2,436,847 international flight passengers (up

4%), which were broken down into 1,513,766 Japanese passengers (up 5%), 642,631 foreign passengers (up 3%) and 280,450 transits (down 3%), and 90,792 domestic flight passengers (down 2%).

Narita handled cargos of 172,128 tons (up 2%) for May, comprising 85,085 tons for loading (up 9%) and 87,043 tons for unloading (down 5%).

The number of aircraft movements for May this year leveled off to 15,700, broken down into 14,613 for international flights (even) and 1,087 for domestic flights (up 2%). The monthly total of aircraft movements for international flights consisted of 12,329 for passenger flights (down 1%), 2,125 for cargo flights (up 4%) and 159 for others (down 19%).

Aircraft movements by destination were:

Transpacific = 2,919 (down 2%)

Europe = 1,486 (down 3%)

Asia = 1,993 (down 6%)

China = 1,944 (up 2%)

Korea = 1,179 (even)

Taiwan = 810 (up 16%)

Hong Kong = 804 (up 1%)

Oceania = 555 (up 2%)

Guam = 549 (down 4%)

Africa = 28 (up 8%)

Others = 62 (down 2%)

Aircraft movements by airline were as follows:

JAL = 2,398 (down 13%)

ANA = 1,399 (up 1%)

NWA = 1,346 (down 2%)

UAL = 866 (even)

JAZ = 570 (up 31%)

KAL = 434 (down 2%)

AAL = 370 (even)

CPA = 310 (up 2%)

JAA = 310 (up 26%)

CCA = 282 (down 1%)

QFA = 260 (up 6%)

AAR = 248 (even)

CAL = 243 (down 1%)

SIA = 240 (even)

CMI = 203 (up 7%)

CES = 194 (even)

THA = 186 (even)

AFR = 172 (down 2%)

CSN = 135 (up 1%)

BAW = 124 (even)

EVA = 124 (even)

COA = 124 (even)

ACA = 124 (even)

MAS = 118 (down 4%)

ANK = 116 (up 87%)

DHL = 116 (even)

PAL = 106 (even)

