Aviation Policy for the Advent of the LCC Age

January 8th 2013

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Ministry of Land, Infrastructure, Transport and Tourism
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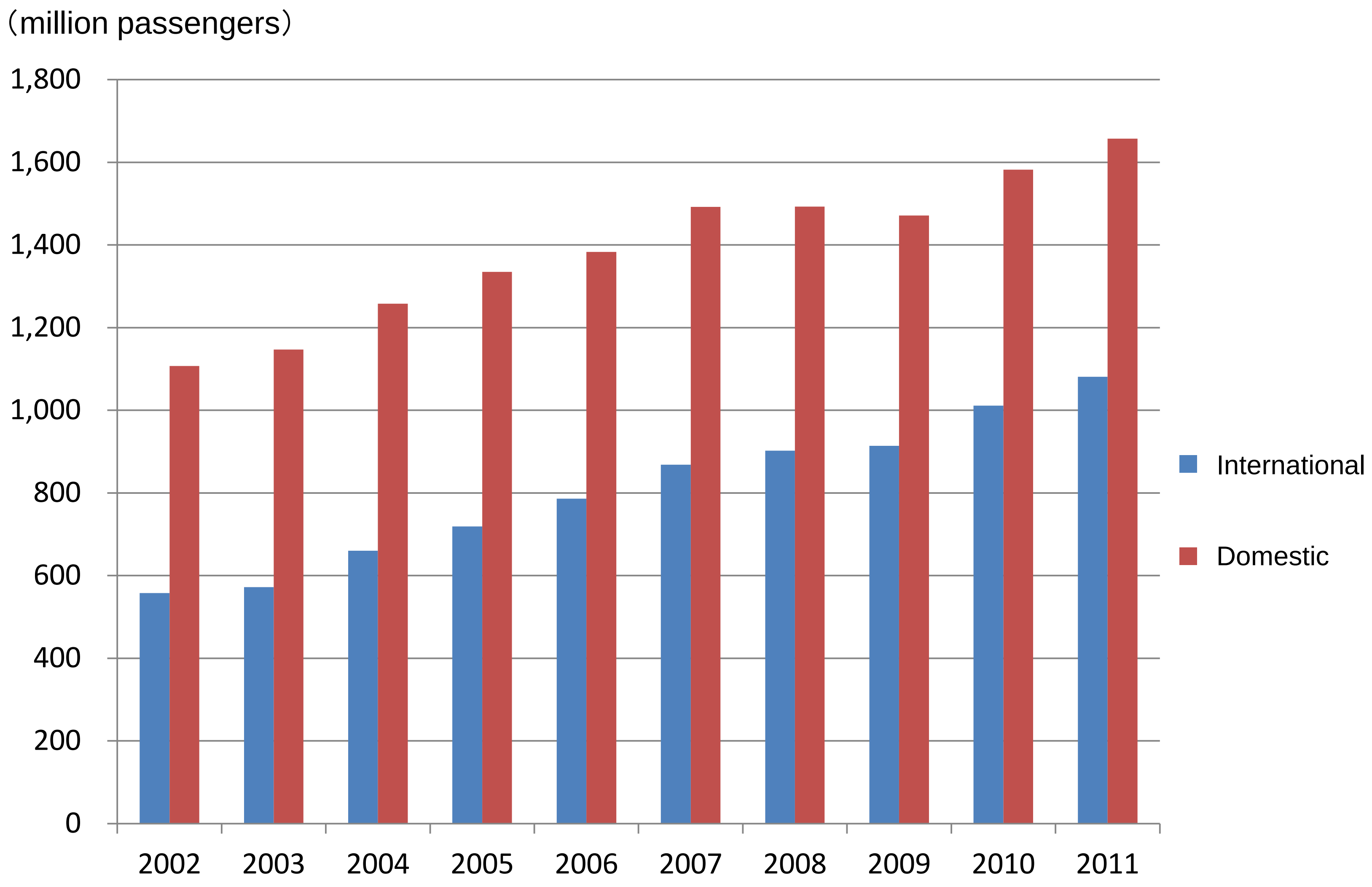
Ministry of Land, Infrastructure, Transport and Tourism

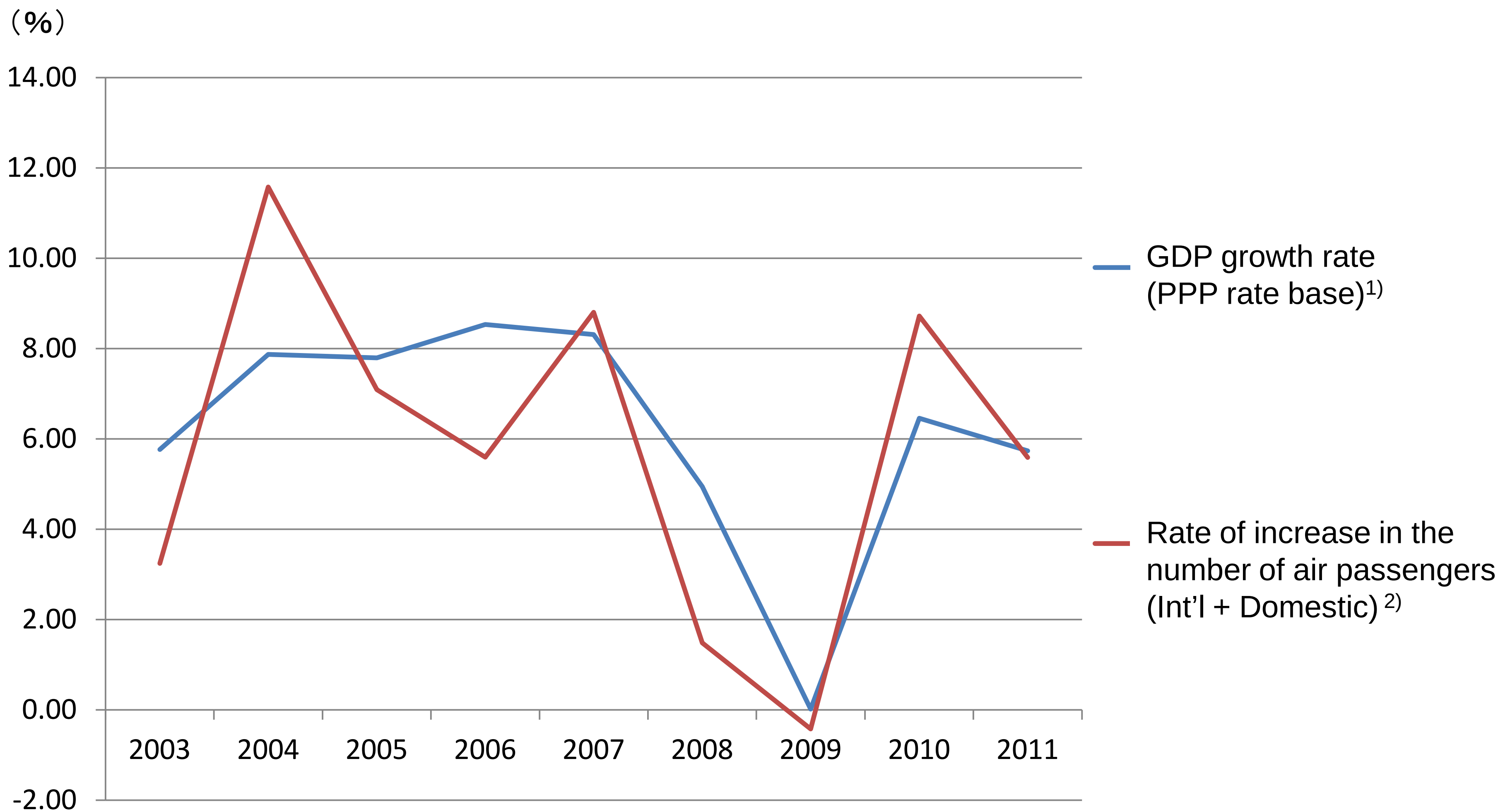
1. Current Status of Air Transportation

Trend of Air Passenger Transportation in the World



Source：Annual Report of the Council, ICAO (International Civil Aviation Organization)

Trend of GDP Growth and Number of Air Passengers in the World

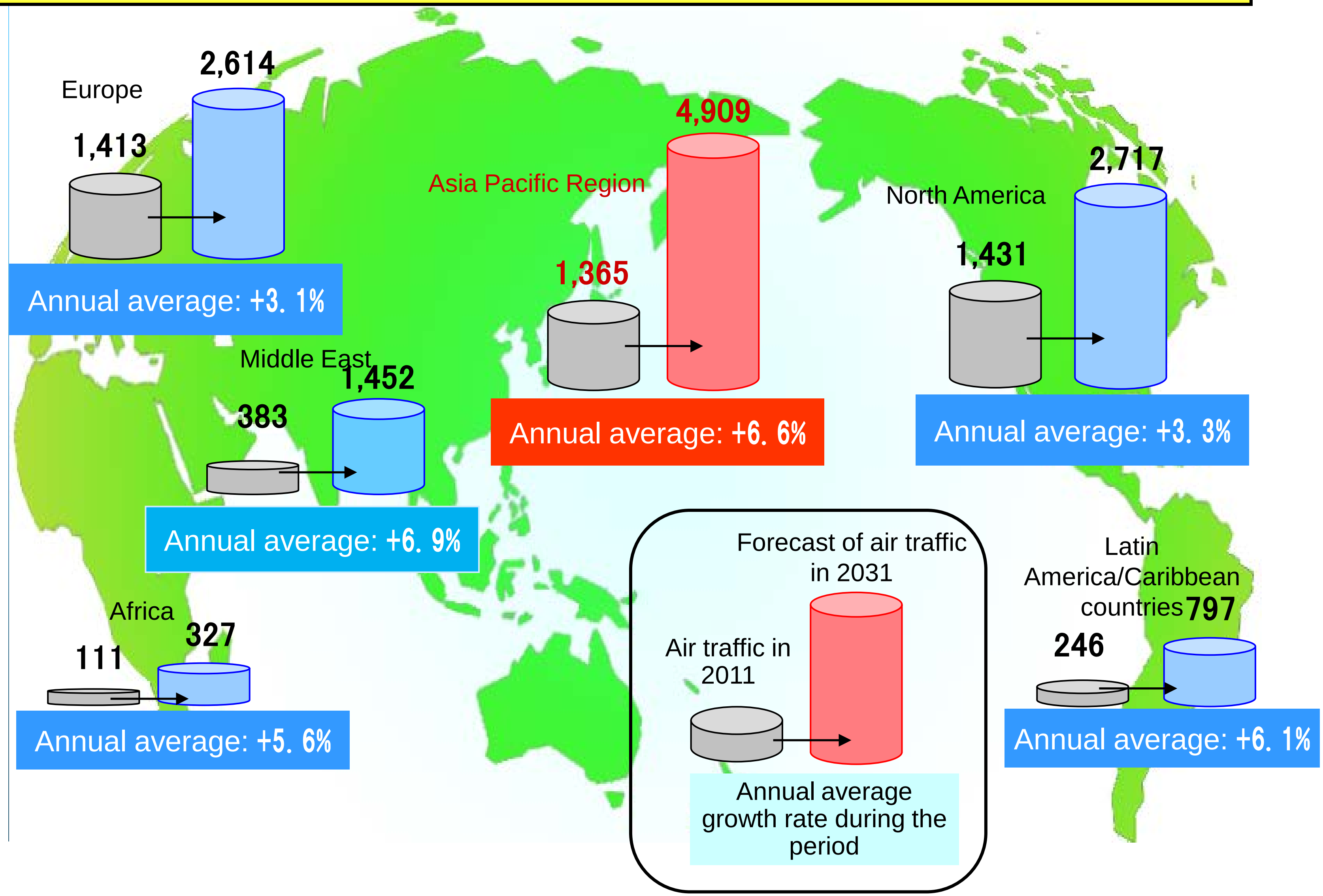


1）. Annual Report of the Council, ICAO 2）. World Economic Outlook, IMF(International Monetary Fund)

Forecast of Air Traffic Growth in the World (2011-2031)

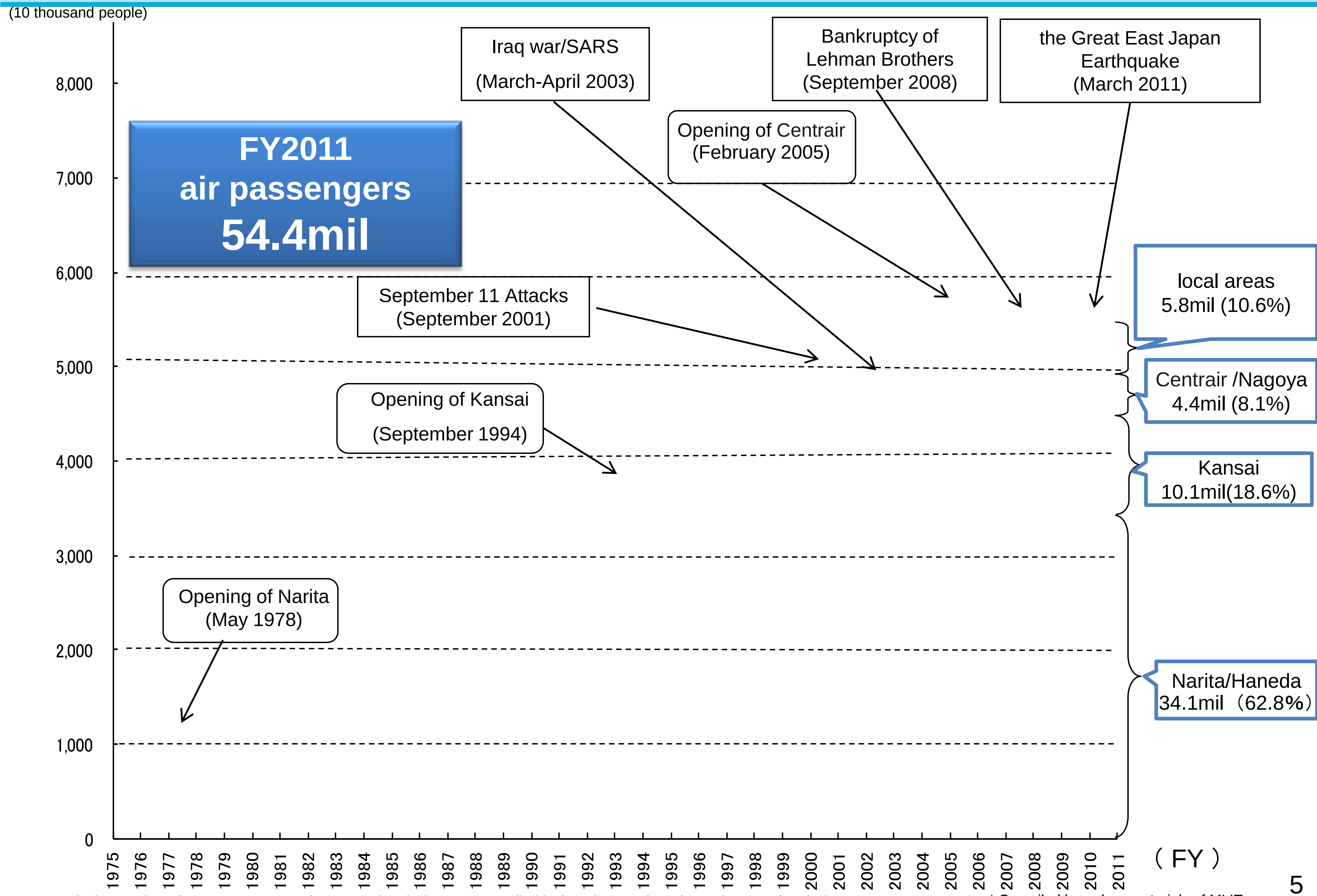
MLIT
Ministry of Land, Infrastructure, Transport and Tourism

Major increase in air traffic (Total number of international and domestic traffic)



Source：Japan Aircraft Development Corporation

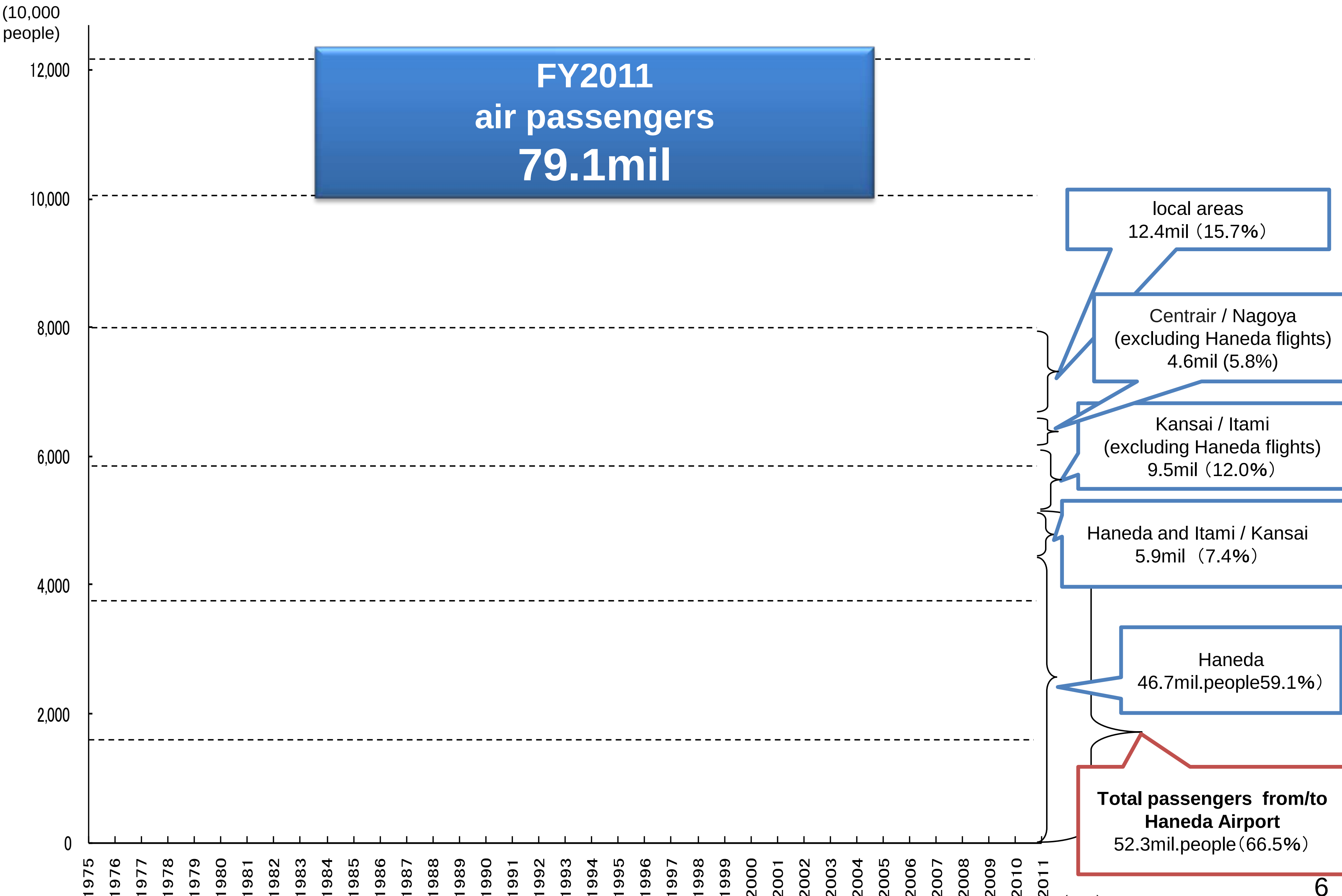
Trend of International Air Passenger Transportation in Japan



Note) The number of passengers at Osaka International Airport was applied before the opening of Kanai International Airport.

* Compiled based on materials of MLIT

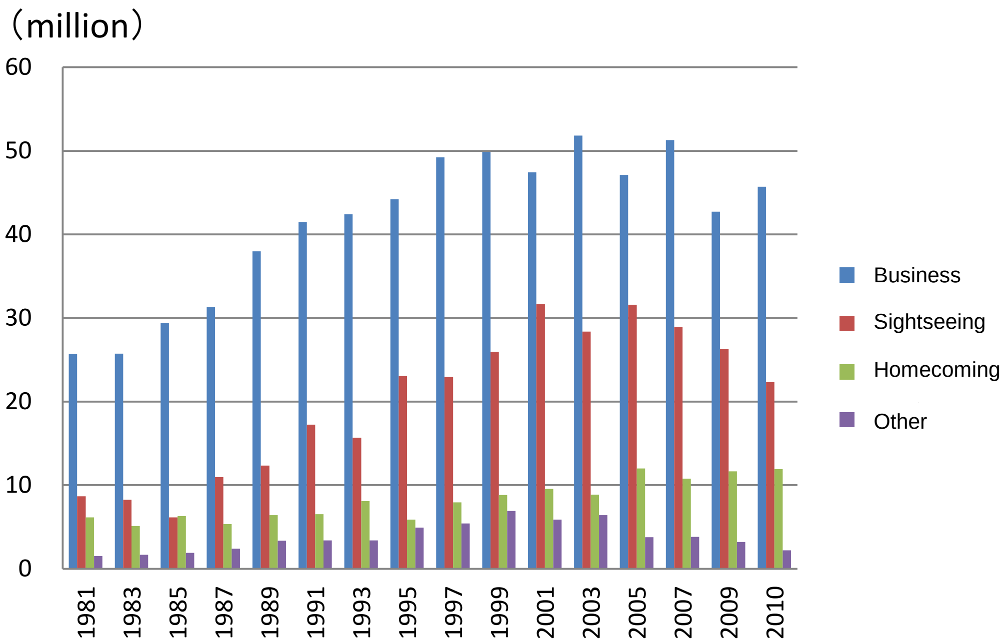
Trend of Domestic Air Passenger Transportation in Japan



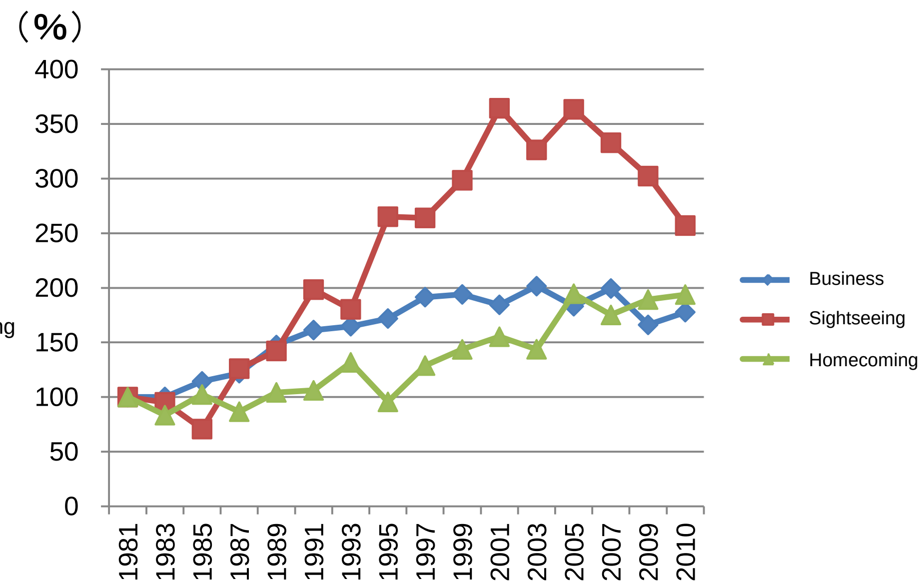
* Prepared by JCAB based on the Annual Report of Air Transport Statistics.

Trend of Domestic Air Passenger Transportation by purpose in Japan

The number of domestic air passengers

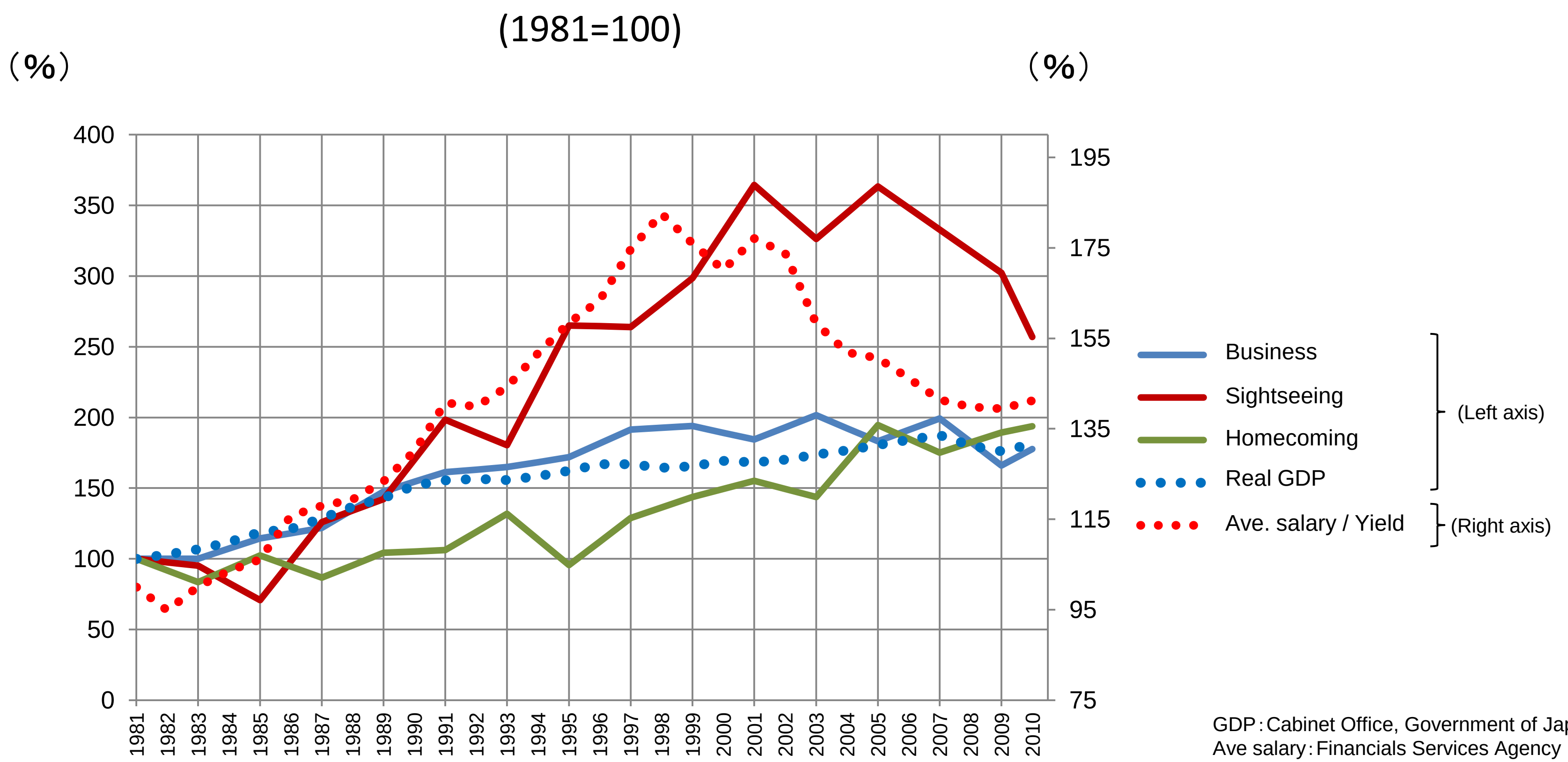


Trend of domestic air passengers (1981 = 100)



- Business demand increased gradually, but fell sharply in 2009
- Demand for sightseeing increased rapidly from late 80's, but recently it's in decreasing trend

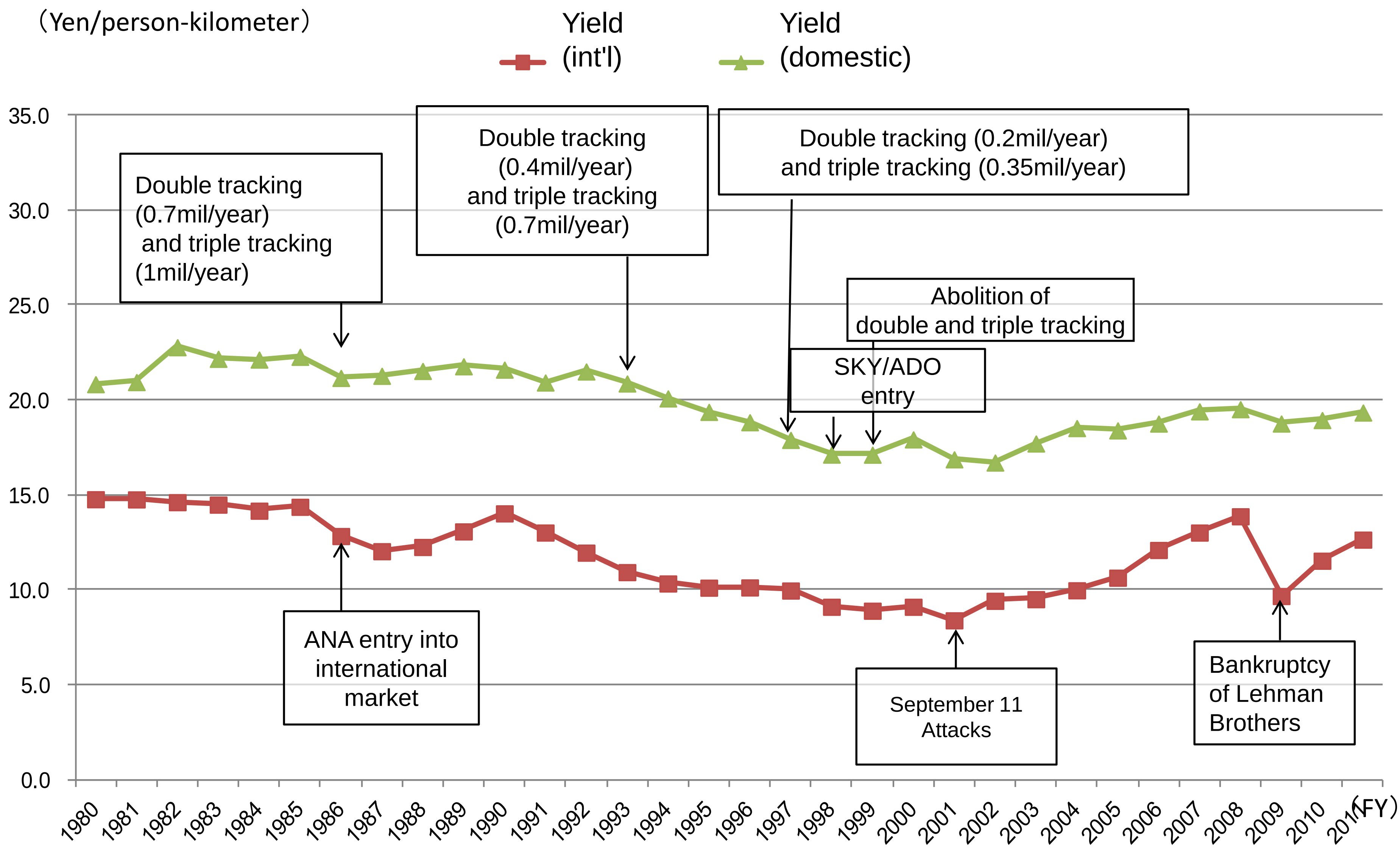
Relativity between Domestic Air Passenger Transportation in Japan and GDP / Salary



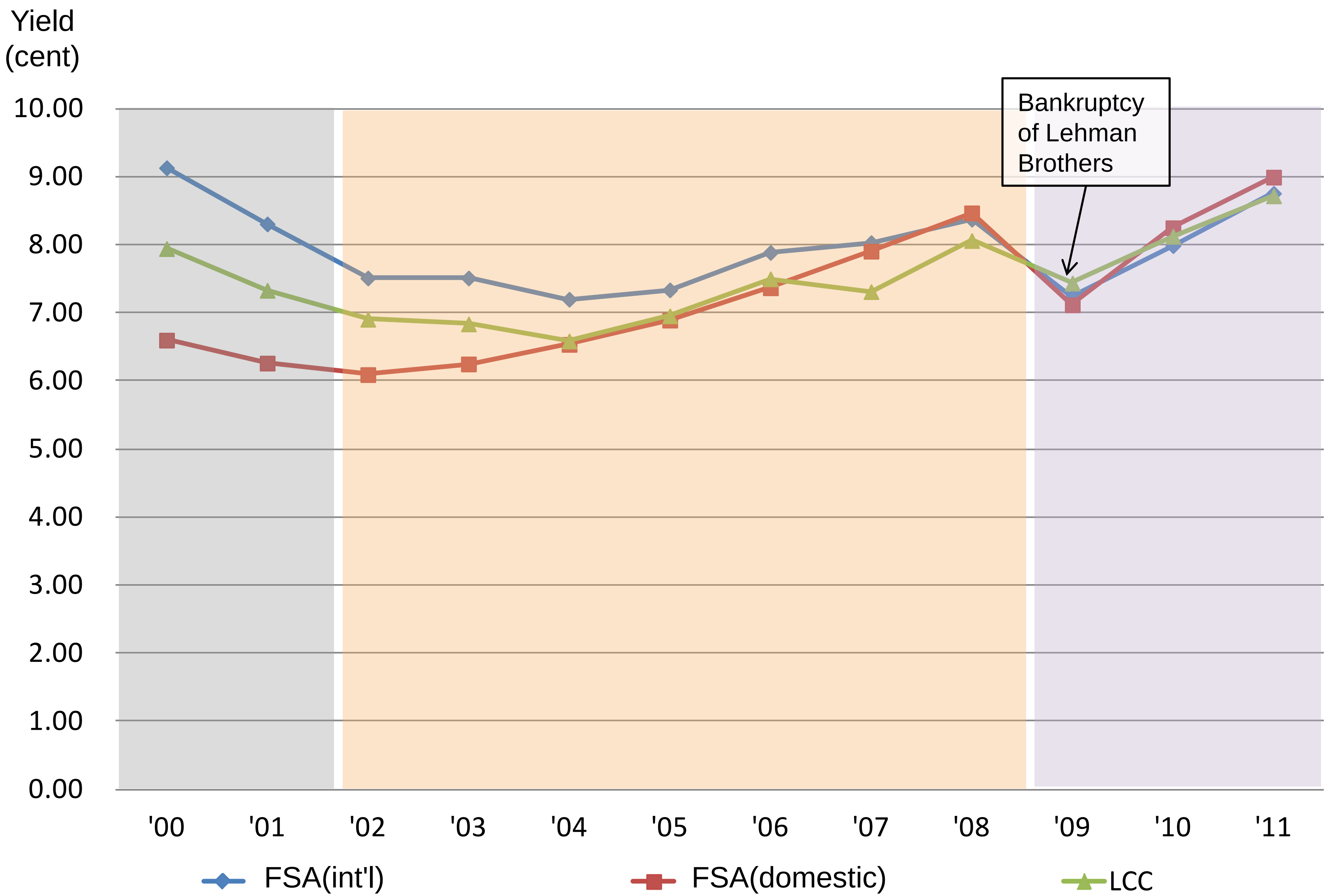
GDP：Cabinet Office, Government of Japan
Ave salary：Financials Services Agency

- Trends of business and homecoming are generally consistent with trend of GDP
- Demand for sightseeing seems related to average salary/ yield ratio

Trend of Yield for Airlines in Japan



Trend of Yield for Airlines in U.S.



※Yield= Revenue / RPK

¢ 9=¥7.2 ($1=¥80)

Source：LCC includes the domestic and international, Institution for Transport Policy Studies

2. LCC Entry into Market

Background of LCC Entry

Lower barrier to new entry

- Deregulation
- The Internet as a cost effective distribution channel

Changes to the business travel market

- Price is more important to business travelers
- Travel agencies also demand low prices

The market for cost-sensitive has rapidly expanded since late 1990s

Characteristics of LCC Business Model

Mainly short & point-to-point traffic

Secondary airports policy

Short turnarounds/high aircraft utilization

Low distribution costs/limited on-board service

Low fleet costs by a commonality policy

↓

Provide service with low costs & low fares

The LCCs in the World

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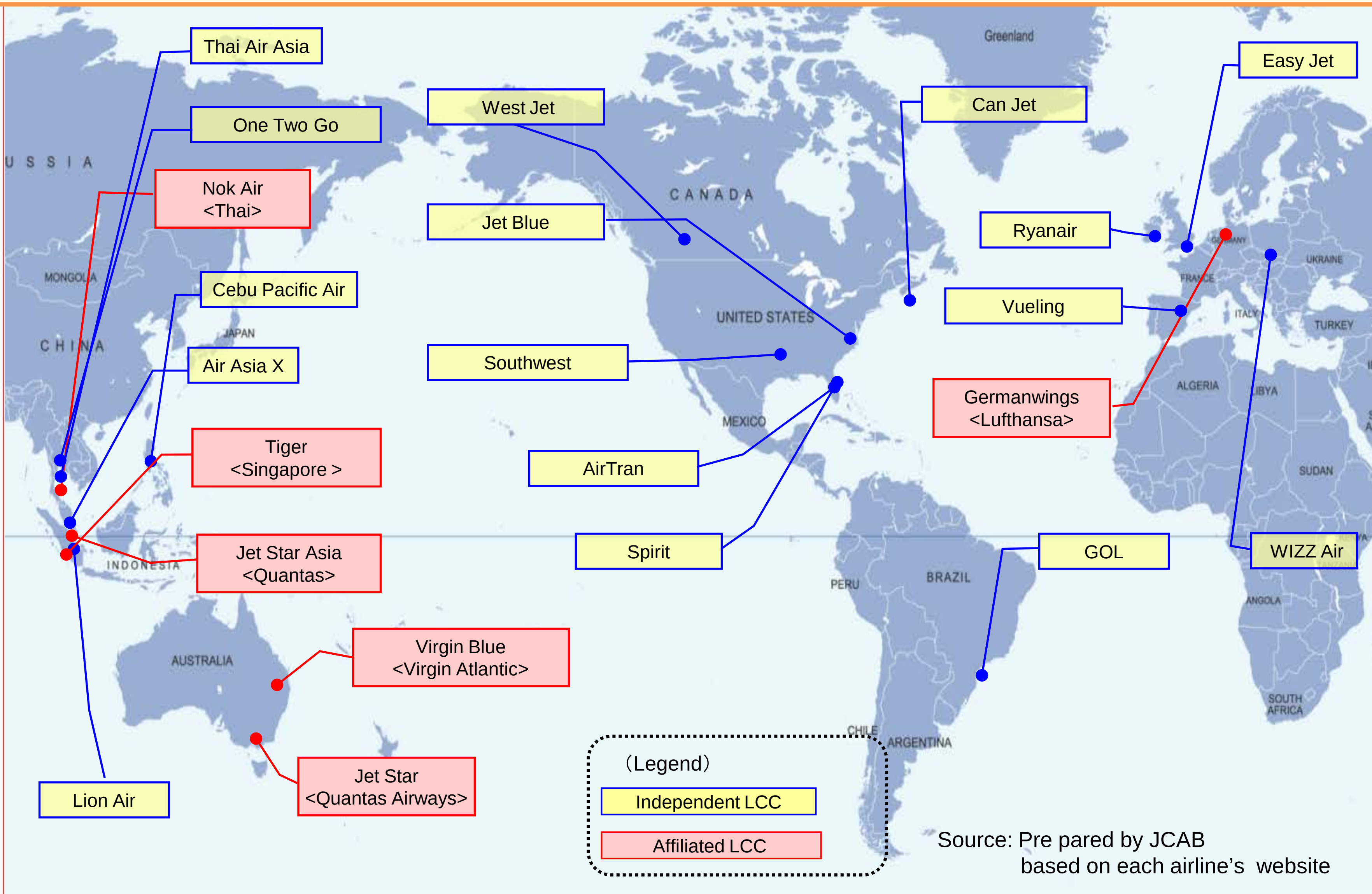
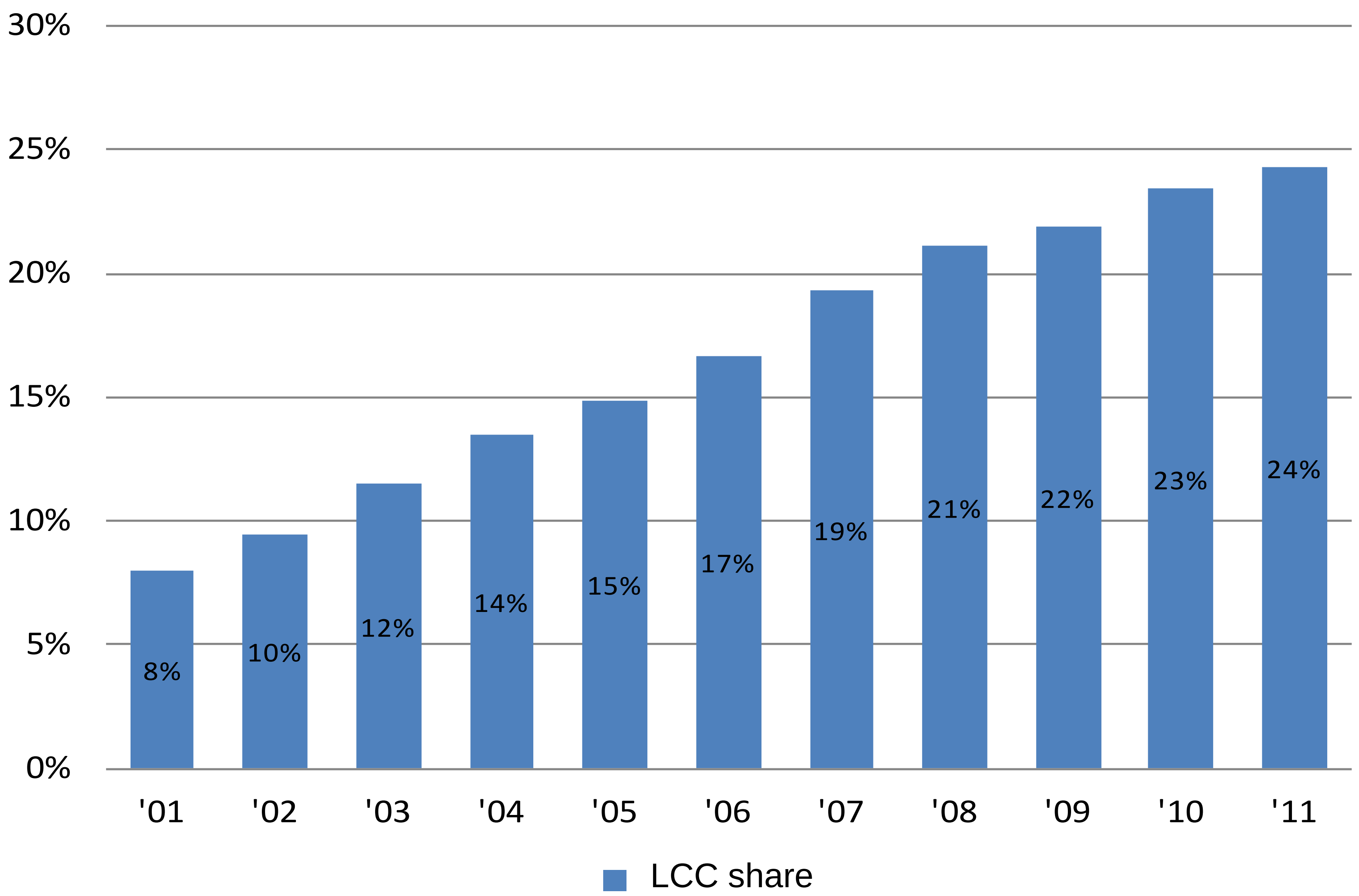
○ LCCs have been actively developing business in the US, Europe and the South-East Asian markets.



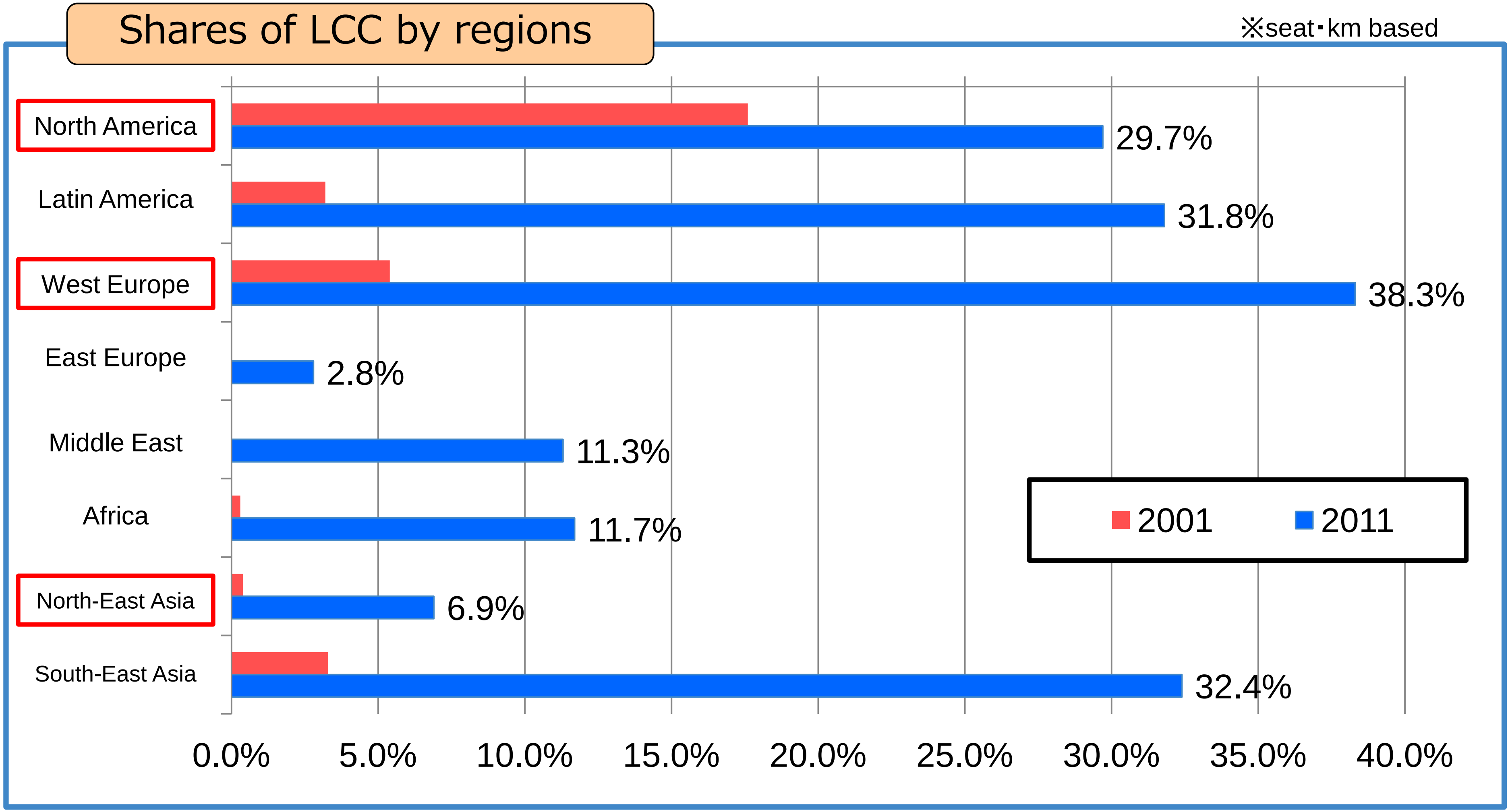
Source: Pre pared by JCAB based on each airline's website

LCC Market Share in the World（Seat-kilometer Based）



Source：CAPA Centre for Aviation　HP

The Share of LCC in the World



※North-East Asia ：Japan, Korea China, Taiwan, Mongol

･Source：CAPA Centre for Aviation HP

The Ranking of Airlines in the World (2012)

MLIT Ministry of Land, Infrastructure, Transport and Tourism

International

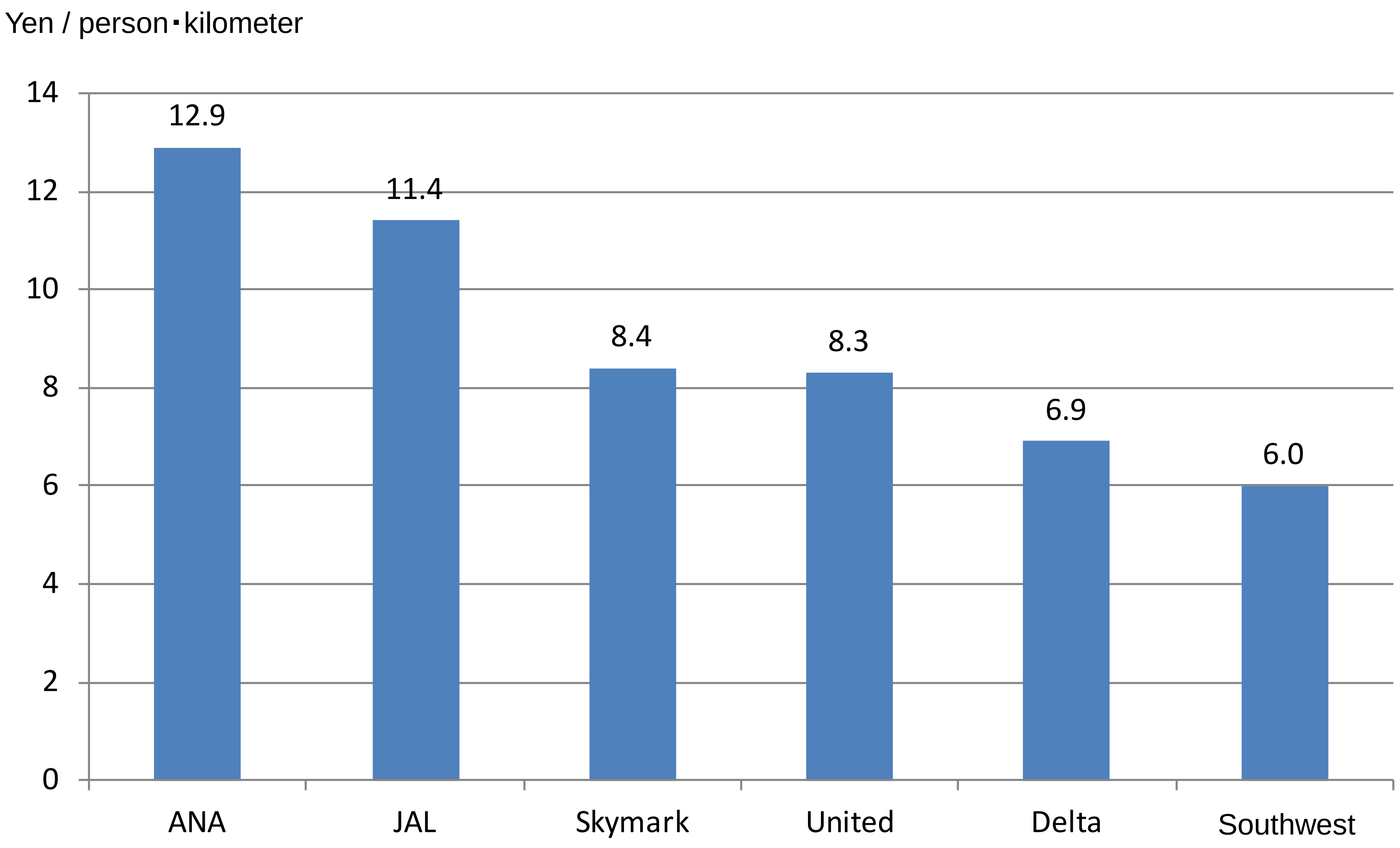
	Airlines	Number of Passengers
1	**Ryanair**	**76,422**
2	Lufthansa	49,755
3	**Easy Jet**	**42,028**
4	Emirates	32,730
5	Air France	32,597
6	British Airways	29,307
7	Air Berlin	25,825
8	KLM Royal Dutch	25,066

Domestic

	Airlines	Number of Passengers
1	**Southwest**	**110,587**
2	Delta	92,023
3	China Southern	74,648
4	American	65,303
5	US Airways	46,619
6	China Eastern	45,595
7	Air China	42,072
8	United	40,524

Source：World Air Transport Statistics 56th edition, IATA(International Air Transport Association)

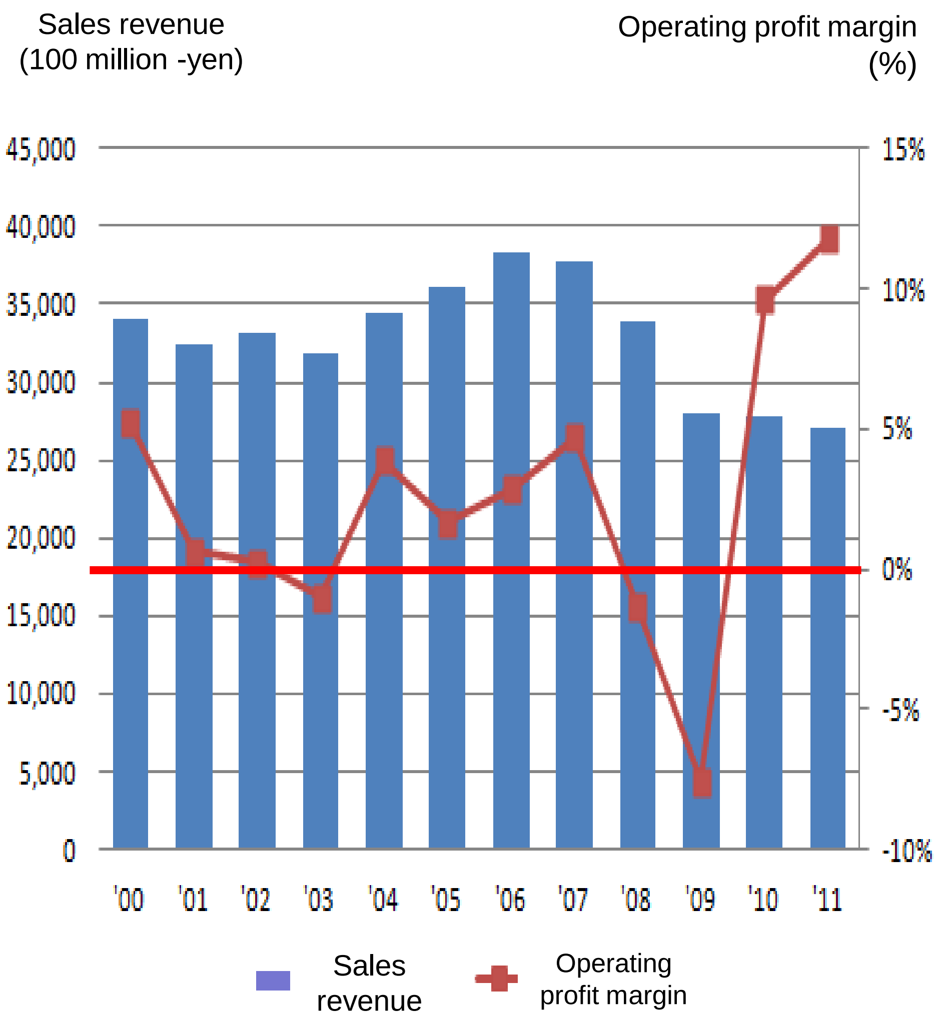
Unit Cost of Airlines in Japan & U.S. (FY2011)



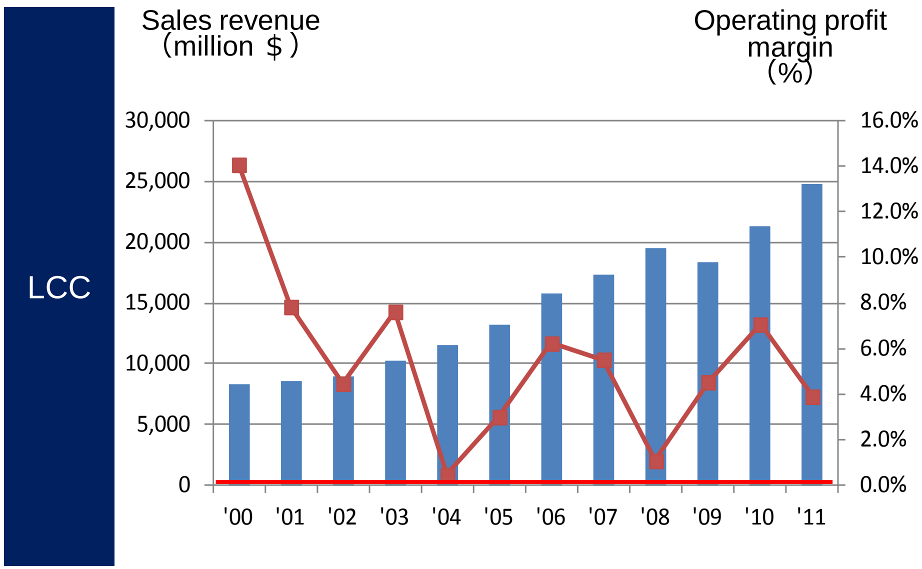
※The unit cost bases on consolidation. 1＄=78.425yen
Source: Prepared by JCAB

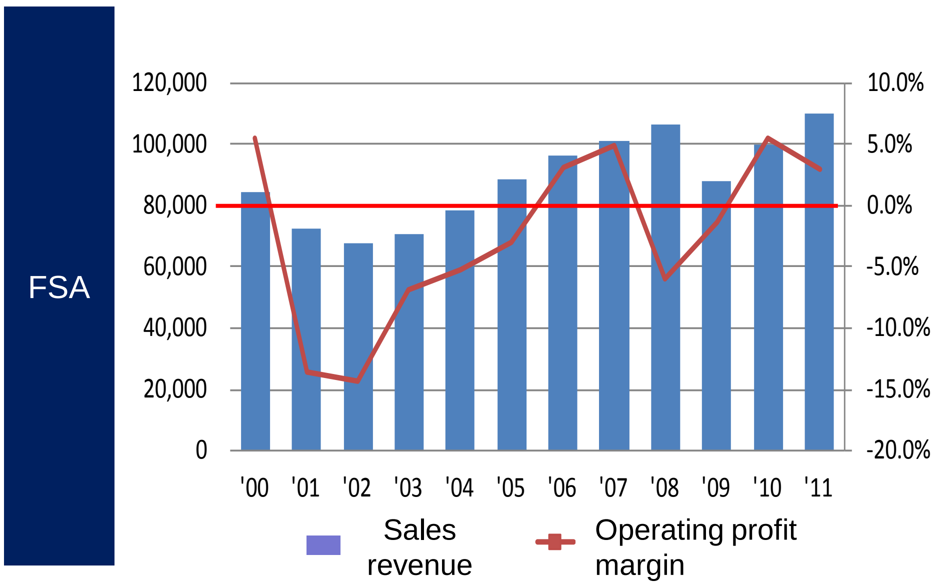
Trend of Airline Performance (Japan & U.S.)

The trend for Japanese airlines[1)]



The trend for U.S. airlines[2)]





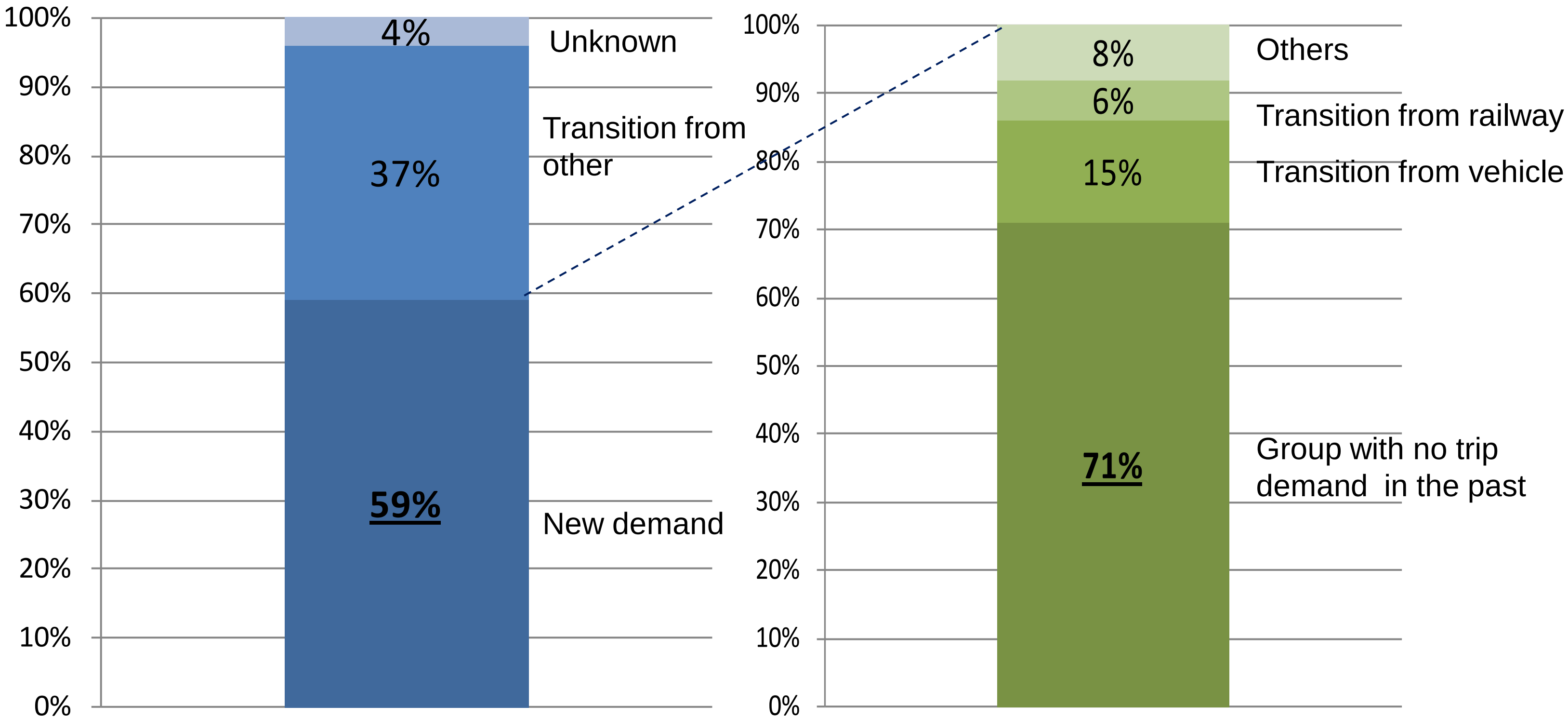
1. Japanese are JAL , ANA and Skymark. : Prepared by JCAB
2. Institution for Transport Policy Studies

Breakdown of New Demand for LCC in Europe

Percentage of transition from other

Breakdown of new demand for LCC

Percentage



5%
4%
9%
42%

Source: Liberalization of European Air Transport , ELFAA , 2004

Foreign LCCs Operating in Japan

Original schedule for winter 2012

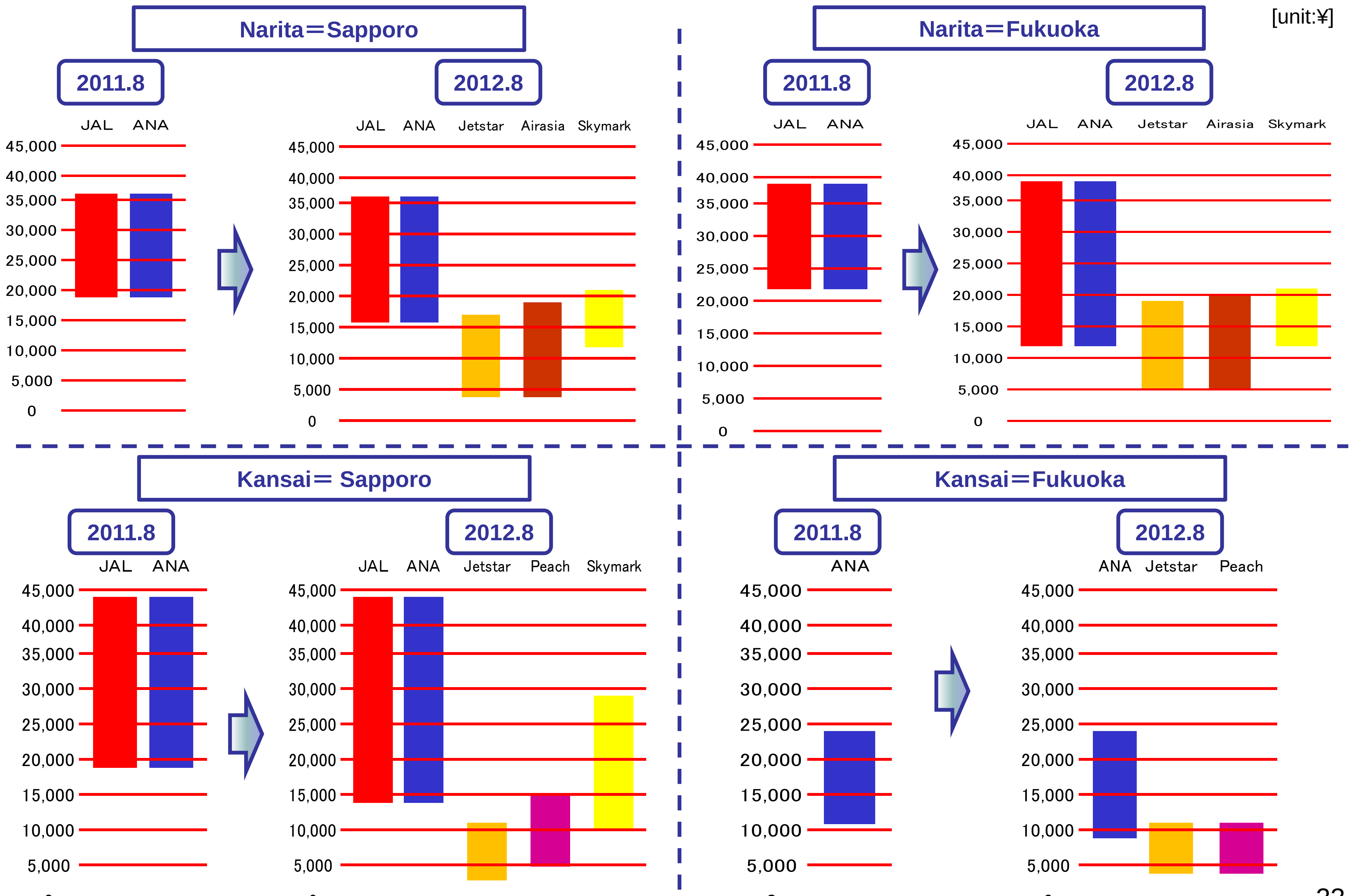
Country/Region	Airlines	Date of Launch	Route	Remarks
Korea	Jeju Air	March 20, 2009	Kansai=Incheon (daily) Kansai=Gimpo (daily) Kansai=Jeju (3 times a week) Chubu=Gimpo (daily) Chubu=Incheon (daily) Fukuoka=Incheon (daily)	
	Air Busan	March 29, 2010	Fukuoka=Busan (twice a day) Kansai=Busan (twice a day) Narita=Busan (daily)	Capital: Asiana 46%
	Jin Air	July 15, 2011	Shin Chitose=Incheon (5 times a week)	Capital: Korean Air 100%
	Easter Jet	May 5, 2011	Narita=Incheon (daily) Kansai=Incheon (twice a day)	
	T'way	December 20, 2011	Fukuoka=Incheon (twice a day)	
China	Spring	June 23, 2012	Ibaraki=Shanghai (5 times a week), Kansai=Shanghai (daily from Jan. 25, 2013) , Takamatsu=Shanghai (3 times a week), Saga=Shanghai (3 times a week),	
Singapore	Jetstar Asia	July 5, 2010	Kansai=Taipei=Singapore (twice a day) Kansai=Manila=Singapore (4 times a week)	Capital: Qantas Group 49%
	Scoot	October 20, 2012	Narita=Taipei=Singapore (daily)	Capital: Singapore 100%
Malaysia	Air Asia X	December 9, 2010	Haneda=Kuala Lumpur (daily) Kansai=Kuala Lumpur (4 times a week)	
Philippines	Cebu Pacific Air	November 20, 2008	Kansai=Manila (3 times a week)	
Australia	Jet Star	March 25, 2007	Narita=Gold Coast (daily) Narita=Cairns (daily) Kansai=Gold Coast (5 times a week) Sydney-Cairns-Kansai-Cairns (4 times a week)※ Darwin=Manila=Narita (4 times a week) Darwin=Singapore=Kansai (4 times a week)	Capital: Qantas Group 100%

※May change during the period

Japanese LCCs

Name	Peach Aviation., Ltd 	AirAsia Japan., Ltd 	Jetstar Japan Co., Ltd 
Capital	15 bil. yen ANA 38.7% First Eastern Aviation Holdings Ltd. 33.3% Innovation Network Corp. of Japan 28.0%	2.5 bil. yen planned to be doubled ANA 67% AirAsia 33%	9.6 bil. yen planned to be 12 bil. yen Quantas 33.3% JAL 33.3% Mitsubishi Corp. 16.7% Century Tokyo Leasing Corp. 16.7%
Hub airport	Kansai Int'l Airport	Narita Int'l Airport	Narita Int'l Airport
Aircraft	A320-200	A320-200	A320-200
Flights	Domestic: Kansai=Sapporo (Mar.1, 2012) Kansai=Fukuoka (Mar.1, 2012) Kansai=Nagasaki (Mar. 25, 2012) Kansai=Kagoshima (Apr.1, 2012) Kansai=Naha (Oct.18, 2012) International: Kansai=Incheon (May 8, 2012) Kansai=Hongkong (Jul. 1, 2012) Kansai=Taipei (Oct.16, 2012)	Domestic: Narita=Sapporo (Aug.1, 2012) Narita=Fukuoka (Aug.1, 2012) Narita=Naha (Aug.3, 2012) International: Narita=Incheon (Oct. 28, 2012) Narita=Busan (Nov.28, 012)	Domestic: Narita=Sapporo (Jul. 3, 2012) Narita=Fukuoka (Jul. 3, 2012) Narita=Okinawa (Jul.9, 2012) Narita=Kansai (Jul.9, 2012) Kansai=Sapporo (Aug.24, 2012) Kansai=Fukuoka (Aug.24, 2012) Kansai=Naha (Oct.28, 2012) International: Planning short int'l flights to China, South Korea, etc. (in 2013)

The Change of Fares Before & After

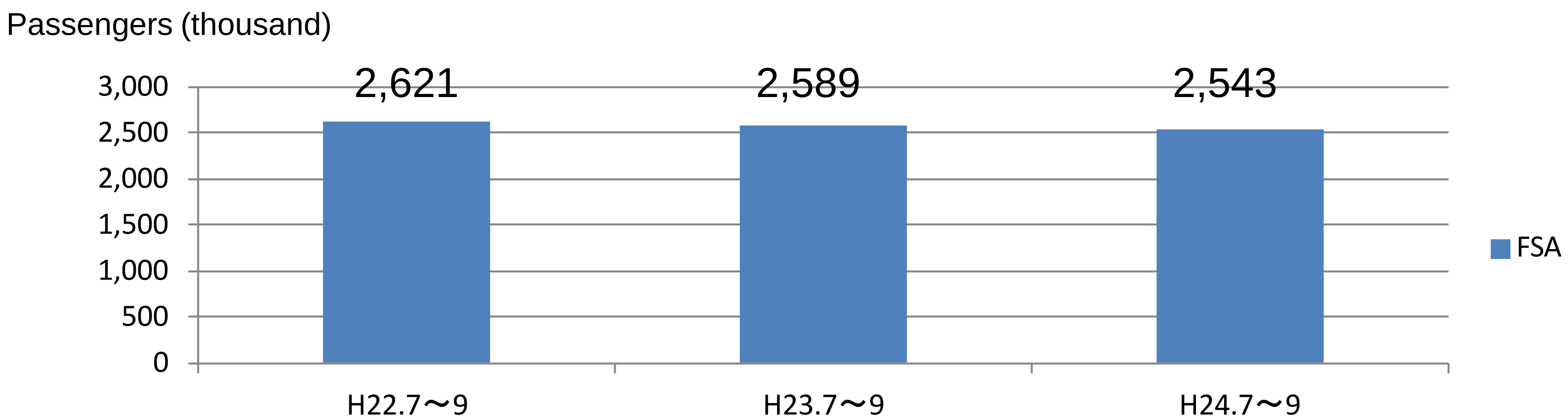


※Source : Fares with notification by June 12th 2012

Market Expansion by the Entry of LCCs
（Tokyo Metropolitan Area=Sapporo）

国土交通省

Haneda－Sapporo



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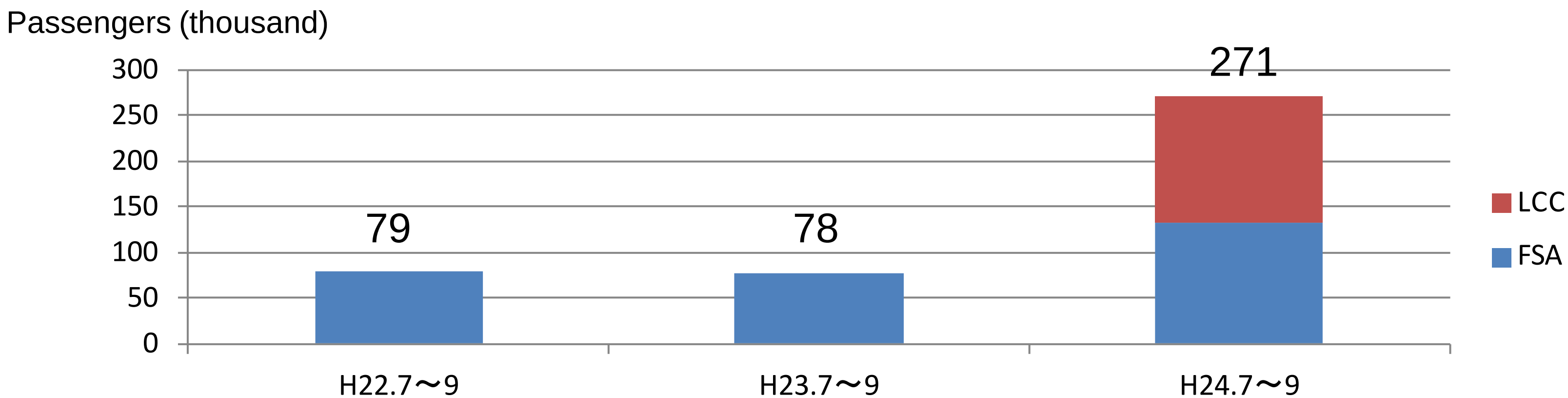
Narita－Sapporo



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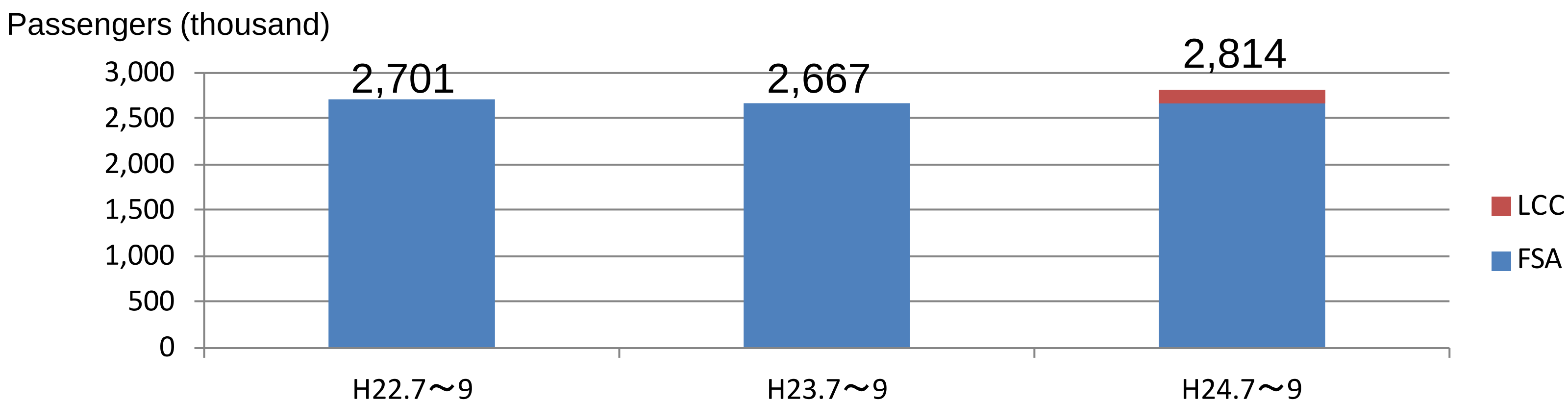
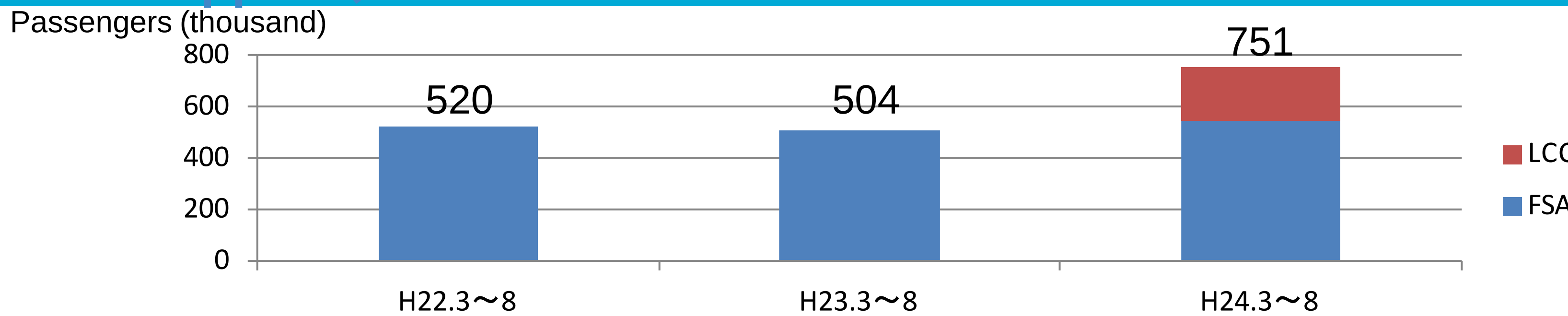
Tokyo metropolitan area－Sapporo



※H24.9 (quick estimation)

Market Expansion by the Entry of LCCs （Kansai Area=Sapporo）

Kansai－Sapporo



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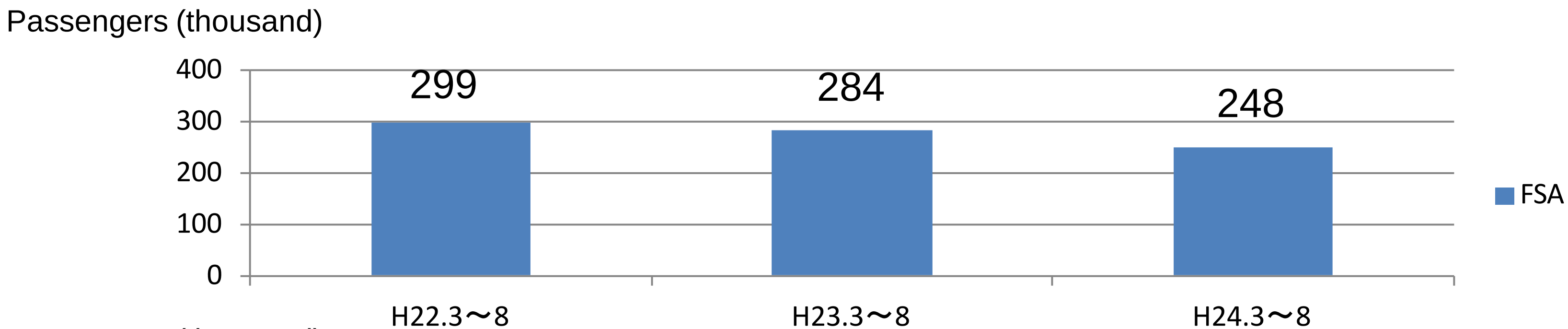
Itami－Sapporo



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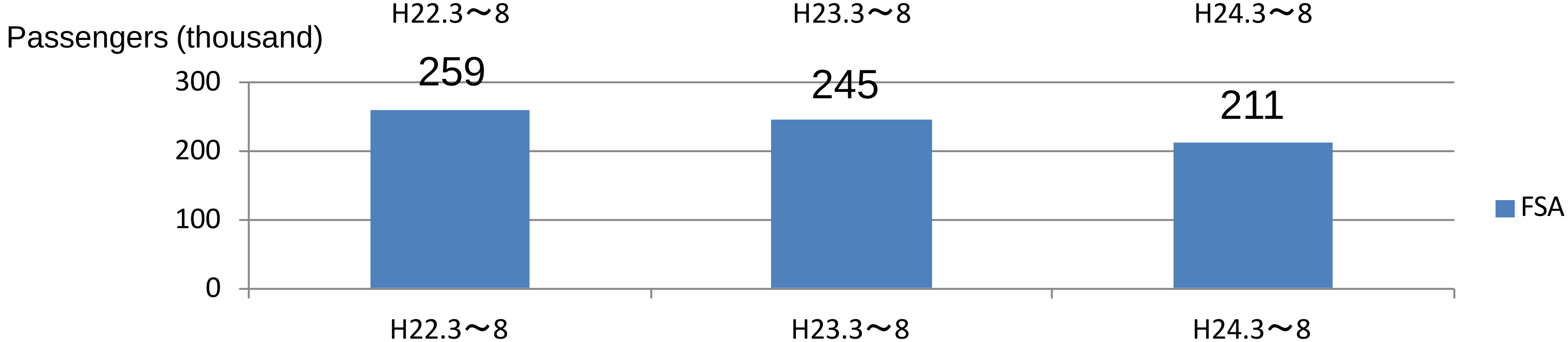
Kobe－Sapporo



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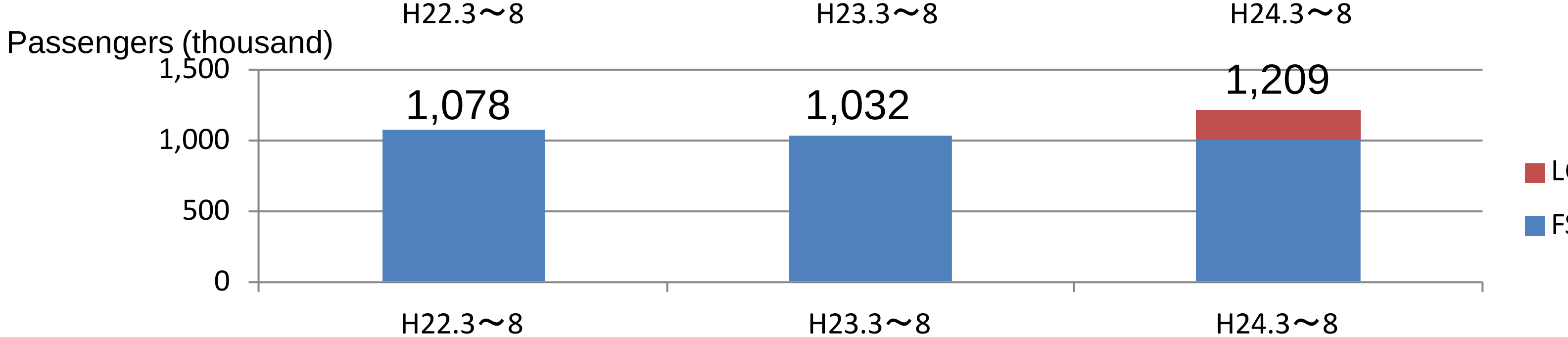
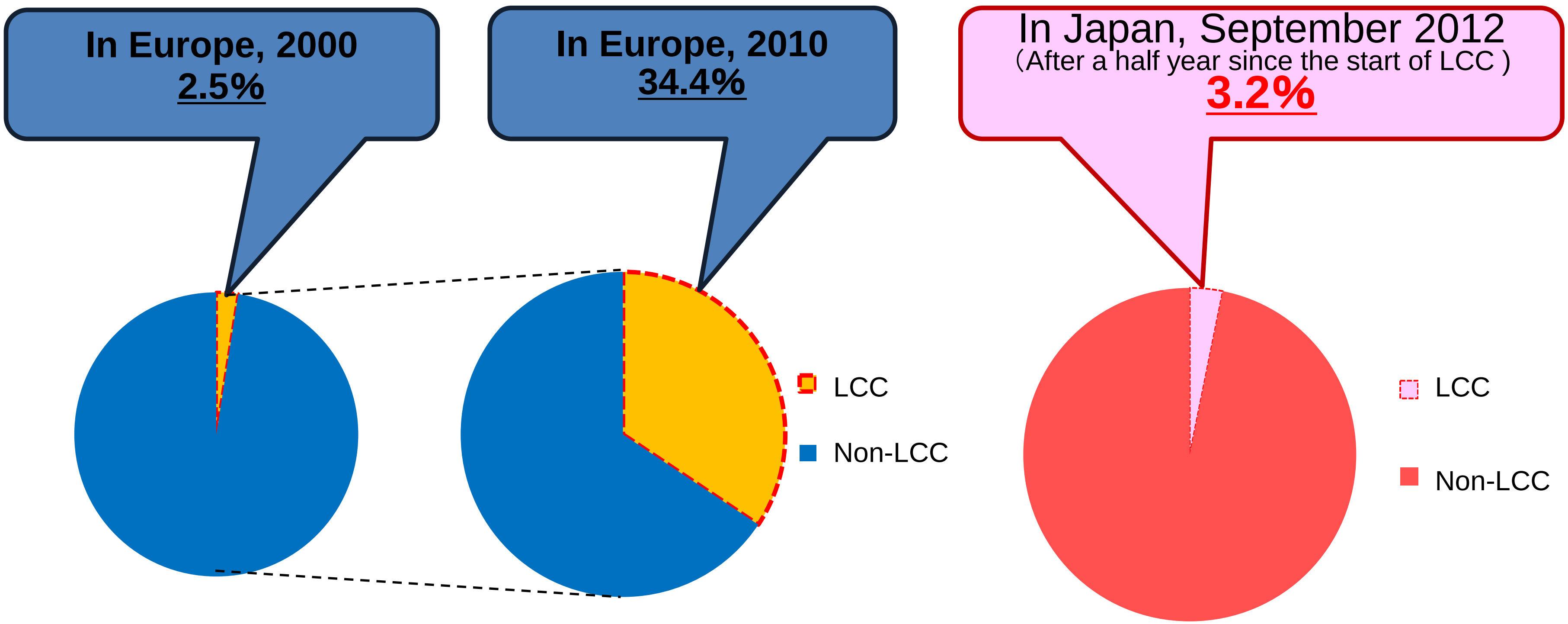
Kansai area－Sapporo



LCC's Share of Passengers in Domestic Flights (Europe & Japan)



※Total number of passengers using pre-existing air carriers and LCC has also increased by 17%.

※Source: Seat-km based data, MLIT's research reports and data in 2011, etc.
※Non-LCC (domestic): specified Japanese air carrier
※The number shown as of September 2012 is the preliminary result

3. Aviation Policy for Growth

Policy on Aviation & Airports

Background : Increase of Airport Capacity at Haneda & Narita

Framework

Promotion of "Open Skies Policy"

Airlines

Promotion of New Services incl. LCCs

Effect

Growth of Aviation Sector → Development of Japanese Economy

Infrastructure

Promotion of Airport Management Reforms

Increase of Annual Slots at the Airports in Tokyo Metropolitan Area

MLIT Ministry of Land, Infrastructure, Transport and Tourism

[1,000 slots]

	Haneda (slots for int'l flights)	Narita	Total
Until October 2010 (Before the D-runway at Haneda was put into service)	303	220	523
At present (Since March 25, 2012)	390 (60)	250	640
From the 2013 summer schedule (After March 31, 2013)	410 (60) 200 for domestics	270	680
Final form (Haneda: at the end of FY 2013; Narita: during FY 2014)	447 (90) 300 for Internationals	300	747

*1. All the numbers are showing slots per year.
*2. As the count of the slots is one slot for a take-off and one slot for a landing, one take-off and landing is counted as two slots.
*3. With regards to the schedule of Narita Airport in the future, the assumption is for the earliest scenario.
*4. In the number of take-off and landing slots at Haneda Airport the number of slots to be used for the operation of international charter flights early in the morning and late at night is also included.

The Progress of Talks on "Open Skies"

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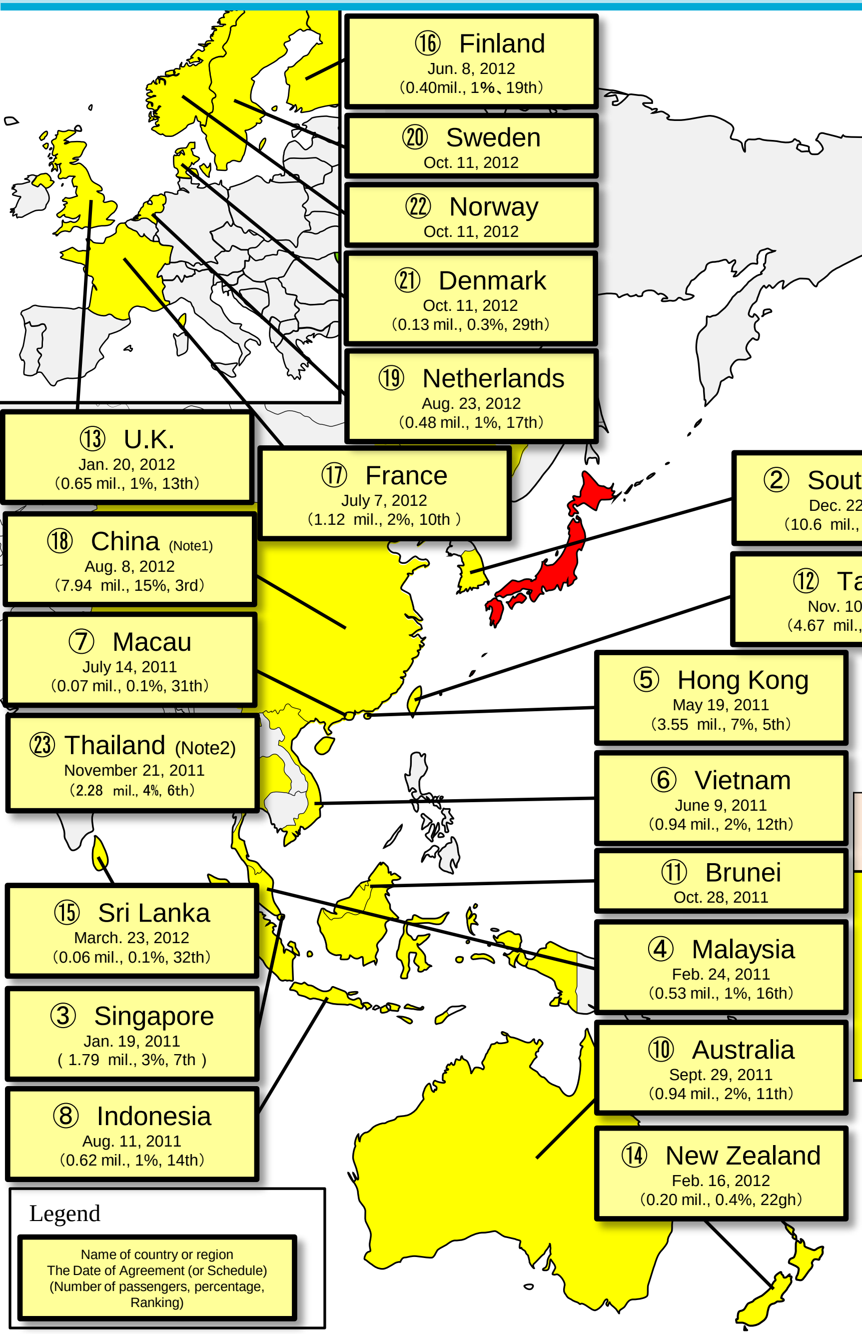

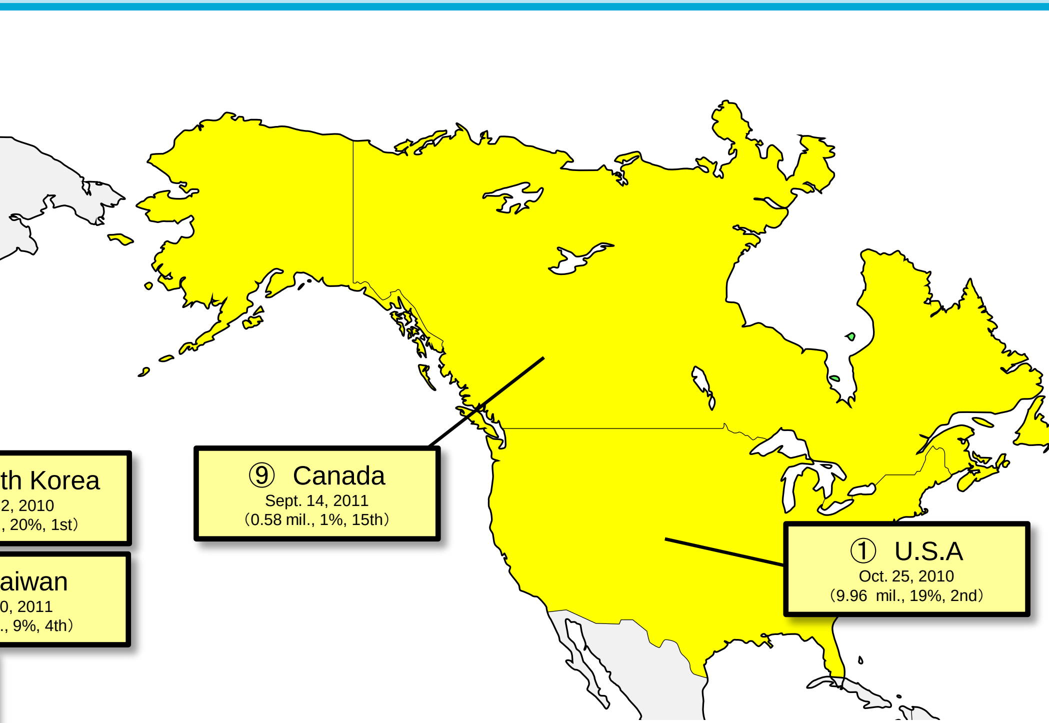

As of Nov. 21, 2012

Countries & regions agreed	Number of passengers from/to Japan	Coverage (※)
23	47.5 mil. (FY 2010)	91 %

(※) The total number of passengers arrive in and departure from Japan=52.08 mil. (FY2010)
The open skies including the Tokyo metropolitan area airport will come off at the time Narita airport's annual arrival and departure slots achieved 270,000, which is scheduled in the summer of 2013.

(Note1) The open skies with China came to realization except for the airports in Beijing, Shanghai, Narita, and Haneda.

(Note 2) The content of agreement with Thailand will be formally confirmed when Thai's domestic procedures completed.

Actions for Promoting New Entry

1. Revision of technical regulations

- Corresponding to the progress of aviation technology, and to the new airline business model
- 100 items revised（120 items requested）

2. Dedicated terminals for LCCs

- Simple structure, with low cost at Naha, Kansai & Narita

Promoting new entry of airlines including LCCs

Restructuring Airport Operations

Current

Landing charges on 27 airports are uniform nationwide
and managed in one special account

Runway

Managed by
government

Terminal building

Managed by
company

Different management between runway and terminal building

Future

Unite “air-side” & “land-side”
Managing income & cost enables each airport to set landing charge flexibly

cost reduction

Thank You for Your Attention