

Flying High

The civil aviation industry is enjoying a boom in both domestic and international services, thanks to the steady expansion of demand. Contributing to this expansion is the continued growth of domestic demand. In addition, new demand was created by fare cuts of about 6.4% following the abolition of the 10% transit tax that had been levied on passengers on domestic routes. The tax was repealed along with the introduction of the 3% consumption tax on April 1.

Furthermore, the opening of new routes and the expansion of flights to and from Tokyo's Haneda Airport resulted in the increased availability of seats, which contributed further to demand. The number of passengers carried by the three major airlines—Japan Airlines (JAL), All Nippon Airways (ANA) and Japan Air System (JAS)—in the first half of fiscal 1989 reached 28,530,000, up 10.9% over the same period a year earlier. The total number for the whole of this fiscal year is estimated to rise also by around 10%.

The number of passengers on overseas routes has also continued to increase at a year-to-year rate of more than 10%. One reason is that overseas travel is gaining in popularity among the Japanese, due to the yen's appreciation over the past four years. Another contributing factor is the steady rise in the number of foreigners visiting Japan, reflecting the continuing boom in the Japanese economy.

In particular, the number of passengers on the Japan-South Korea route has been growing at an annualized rate of nearly 30% compared with the preceding year's level. ANA and JAS began services on



The volume of air cargo handled at the Tokyo international airport at Narita is now the biggest in the world.

this route in the summer. Thus the three major airlines now operate on this route.

Air cargo also continues to follow a strong trend, reflecting the robust growth of the Japanese economy. The volume of cargo, expressed in tons, that was carried by the three major Japanese airlines in April through August increased 6.5% over the same period a year earlier. Perishable foods and electronic parts were among the major items transported on domestic routes. The volume carried on international routes was up 9.3% over a year earlier.

Although air cargo accounts for a tiny proportion of the total quantity of cargo transported both domestically and outside the country, the rate of air cargo growth, particularly that which has high value added, remains at a high level. While demand has been growing strongly, capacity has not increased sufficiently to meet the demand in full, because of restrictions on landing and takeoff capacity at airports. Under these circumstances, load factors are expected to rise.

All three airlines are expected to report increases both in sales and earnings for fiscal 1989. This is largely because the rise in fuel costs resulting from crude

oil price hikes has proved to be less than expected.

Demand on domestic routes is expected to remain fairly strong in fiscal 1990. However, the rate of growth is likely to slow, to about 4–6%, for two reasons: the effect of the price cuts will have disappeared, and there is not much room for easing the capacity constraints on the major routes. The rate of growth on international routes is also expected to stay at single-digit levels. This is partly because the yen's appreciation is beginning to mark time, and partly because room for capacity expansion on the major routes is also limited.

The Japanese airlines find themselves in a highly competitive situation both at home and abroad. In the U.S. civil aviation industry, deregulation is picking up momentum, and there is now a boom in corporate acquisitions. The European aviation industry is bracing itself for a gradual liberalization with the scheduled integration of the European Community's internal market in 1992. Asian countries have their sights set on the Japanese civil aviation market by establishing new international airlines.

The second expansion project at Narita international airport is expected to be completed in a few years. The new Kansai International Airport now under construction is also expected to open in the early 1990s. These projects, when completed, will eliminate the airport capacity limitations that now exist and will set the stage for full-scale competition. The Japanese airlines must map out long-term business strategies if they are to prosper in this new ultra-competitive environment.

Air Transport Volume

	FY 1987	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Domestic passenger traffic (1,000 persons)	47,124 (7.9)	49,520 (5.1)	54,472 (10.0)	56,651 (4.0)
Domestic cargo volume (1,000 tons)	559.7 (12.7)	604.2 (8.0)	652.5 (8.0)	704.0 (7.9)
International passenger traffic (1,000 persons)	22,507 (20.7)	26,639 (18.4)	29,836 (12.0)	31,954 (7.1)
International cargo volume (1,000 tons)	1,219 (19.1)	1,402 (15.0)	1,597 (13.9)	1,816 (13.7)

Notes: 1. Domestic passenger traffic and cargo volume figures are for the three main Japanese airlines.
 2. Figures in parentheses denote growth rate over the previous year.

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