Aviation deregulation and its impacts on outbound charter operation in Japan

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1. INTRODUCTION

In Japan, in order to promote outbound tourism, the Ministry of Land, Infrastructure and Transport (MLIT) has deregulated international charter operations since 2007. As a result, the number of Japan outbound charters increased from 2,127 flights in 2006 to 3,459 flights in 2010. However, this aviation liberalization has enhanced new competitions among airlines and brought some changes to Japan charter market. This study analyzes the changes in market share of Japanese airports that operated outbound charter flights; and the changes in Japan short-haul, medium-haul and long-haul charter demand during 2006-2010. Especially, this study investigates airlines business strategies and its impacts on the charter flows from Japan. This research is based on analyses of the charter flights supply, carried out with the data provided by Travel Journal, Airline Journal and MLIT. The study result is important for Japanese airports authorities who wish to use charter service as a special method to utilize the extra capacity of their airports.

2. A REVIEW: AIRLINES COMPETITION FOR CHARTER BUSINESS UNDER DEREGULATION

For the most past, two stands of air services have emerged over the past few decades: full-service airlines (FSAs) and value-based airlines (included low-cost carriers (LCCs) and charter airlines) (Duval, 2006).Focused on international tourism, some researchers noticed a competition between LCCs and charter airlines for charter business (e.g. Graham and Dennis; 2010). Williams (2001) argued that LCCs had replaced charter carriers on short-haul routes; while Barrett (2010) said the differences between FSAs, LCCs and charter airlines were dispersing in a deregulated EU markets. Wu and Hayashi (2012) studied the strategies of China FSAs for Sino-Japan charter operations. However, few of them noticed the competition among FSAs, LCCs and charter airlines for charter business in Asia aviation market.

Traditionally, charter flights in Japan have been operated by FSAs. MLIT deregulated charter operations in May of 2007 to promote outbound tourism. The key aspects of the deregulation are: decreasing requirement for accommodation nights; abolishing 50% rule; enabling the third-country airlines to operate charter to Japan; and lifting regulations on the frequency and routes of charter operation. Again, in December of 2008, MLIT further deregulated charter operations: such as increasing seat-only sales; promoting charter flights operated by the third-country airlines; and promoting charter business in Narita Airport. Now, the Japan charter market is operated by FSAs, LCCs and charter airlines. Therefore, it is necessary to check to which extent that the deregulation have changed the Japan charter market.

3. CHANGES IN AIRPORTS AND DESTINATIONS UNDER DEREGULATION

The market share of regional airports about outbound charters decreased from 34% in 2006 to 20% in 2010; while those of Narita airport increased from 11% to 37% (table 1). It reflects that airlines have concentrated the operation to Narita and other big airports since the deregulation; maybe due to, in a liberal market, travel demand of airport catchment is the key factor that influenced airlines to choose airport. Figure 1 is the breakdown of Japan charters demand to main destinations. It can be observed that number of flights to Korea, China and The Pacific resort increased significantly. There was a decline in 2008 due to surge in fuel price and the downturns in world economy. On the other side, charter demand to each destination changed in different patterns (fig. 1). For example, Korea is the only market shown a 10% increase in 2008. The next sector illustrates the impacts of airlines strategies on charter operation based on three case studies of short-haul (China, Korea, Asia), medium-haul (the Pacific resorts) and long-haul (Europe) market respectively.

Table 1 Changes in market share of airports operated outbound charters. Data source: Travel Journal, own calculations

	Market (no. of outbound charters	Index	Market share (%)				
			Narita	Haneda, Kansai, Chubu	New- Chitose, Sendai, Hiroshima, Fukuoka, Naha	Chikuba, Shizuoka	Regional airports
2006	2,127	100	11	35	20	-	34
2007	2,231	113	13	34	21	-	32
2008	1,741	82	19	35	23	-	23
2009	2,256	106	29	28	19	3	21
2010	3.459	163	37	22	15	6	20

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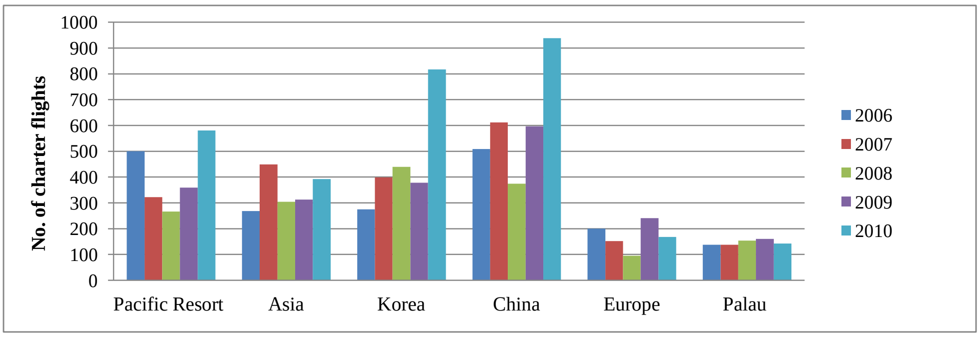

Fig.1. Changes in Japan charter demand to main destinations. Data source: Travel Journal, own calculations

4. RESULTS: AIRLINES STRATEGIES AND ITS IMPACT ON CHARTER MARKET OPERATION

There were 13 airlines (7 LCCs, 3 charter airlines, 3 FSAs) started to operate charter flights from Japan to Siem Reap, Macau, Hong Kong, Bangkok, Shanghai and some Korean cities from 2007. The analysis shows that these valued-based airlines are difficult to handle charter business sustainably from regional airports. (1)Three airlines went bankrupt only after 1-2 year in business. (2) Korean LCCs are interested in schedule services, and regard charter operation as a method to understand market situation. (3) The newly entered LCCs prefer to operate charters from Narita. Spring Airlines which operated schedule charter from Ibaraki, Takamatsu and Saga to Shanghai is the exception. The explanations should go to the increasing Chinese outbound demand to Japan and the subsidy provided by Japan regional government.

On the medium-haul market, the third-country airlines have stimulated Japan charter demand to the Pacific resort destinations. From 2008 to 2010, Japan Airlines and All Nippon Airways lost 34% market share on this market. Nevertheless, the total number of charters went this market increased 61%. There are two possible explanations. (1) Continental Airlines started to operate charters between Rota Island and Narita in 2008. (2) As the third country airlines, Korean Air and Asian Airlines operated, at least, one quarter of charters between Japan (especially Narita) and Guam, Saipan and Hawaii.

On the long-haul market, the competition between Japan Airlines and Europe’s carriers has led to a geographical diversification in charter supply. Japan Airlines started to operate charter flights to Europe in 2006. Benefiting from “abolishing the 50% rule”, this airline started open-jaw charters to Europe in 2007. In 2010, Japan Airlines expanded its charter network to 8 Japanese and 20 European airports on 30 city-pairs. Oppositely, Europe’s carriers lost a half of its market share, but still control the charter flows from Japan regional airports to Switzerland, Poland and Portugal. In the competition with Europe’s airlines, Japan Airlines spread its charter destinations from Switzerland and Italy to Central European cities, then to resort destinations next to the Mediterranean Sea and Adriatic Sea.

5. CONCLUSIONS

In the process of aviation deregulation, a regulatory Japan charter market has been replaced by an integrated market operated by FSAs, LCCs and charter airlines. This study indicates that, firstly, LCCs have changed the spatial configuration of charter network between Japan and China, Korea and East Asia, but limited in operating charters from regional airports sustainably. Secondly, the third country FSCs provided additional seats to the Pacific resort destinations in peak seasons. It met the travel demand in peak season and solved some problems caused by reducing of scheduled service on resort routes. Finally, Japan Airlines experiences success in competition with Europe’s carriers on long-haul charter operating to Europe, by increasing the number of destinations and products to meet the demand of silver passengers. It is difficult to determine to what extend that the deregulations have changed the market operation. This study is the first step that calls for analysis of airlines competition in this niche markets. Future studies should analyze the implications and consequence of aviation deregulation for Japan charter industries.

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