



Evolution of outbound charter operations in Japan post-deregulation



Chuntao Wu^{a,*}, Yoshitsugu Hayashi^b

^a School of Tourism, Sichuan University, No. 2 South Section, Yihuan Road, Chengdu City, 610064, PR China

^b Graduate School of Environmental Studies, Nagoya University, C1-2(651), Furo-cho, Chikusa-ku, Nagoya City 464-8603, Japan

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ABSTRACT

Since 2007, Japan has deregulated charter operations to promote outbound tourism. This study investigated changes since deregulation in the spatial patterns of charter departure airports and traffic volume to major destinations. Furthermore, this study analyzed the effects of new entrant airlines on charter network evolution. For the purposes of this paper, charter supply data has been analyzed and case studies of a short-haul route from Japan to Korea, a medium-haul route to Pacific resorts, and a long-haul route to Europe have been conducted. The results suggest that deregulation has resulted in a concentration of charter departures at airports located in the Tokyo metropolitan area, and has had a variety of effects on charter traffic to major destinations. In particular, during the process of deregulation, the role of airlines has been shifted from carriers offering charter services under the requirement of tour operators to a market leader which controls the charter flows.

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1. Introduction

There are two kinds of international passenger air services. One is scheduled international service, which refers to flights operated either in accordance with a published timetable, or with flights so regular or frequent that they constitute an easily recognizable service. The other is un-scheduled international air service (charter service), which refers to aircraft not engaged in scheduled international air service (ICAO, 1977). The traditional distinction between these two services is that charter flights do not appear in an airline timetable or computer reservation system (Doganis, 2002). Inclusive tour charters (ITCs), affinity charters and own-use charters are the three kinds of commercial charters involved in recent years. The most widespread type is ITCs, which means the whole of an aircraft is chartered by one or more tour operators who combine the seats with hotel or other accommodation into package holidays (Doganis, 1991).

Charter services developed rapidly in the 1960s and 1970s, especially in the North Atlantic and European holiday markets. In the United States (U.S.), supplemental carriers (charter carriers) started to operate charters for group travel, especially to Europe at very competitive fares after the Second World War (Smith, 1998). In Europe, charter carriers operated on separate basis from the scheduled airlines and were much more competitive. The acceptance of charter airlines by Mediterranean countries such as Spain in the

1960s has led to a boom of ITCs to these areas from Northern Europe (Forsyth, 2006). As a result, in 1974, charter traffic represented 26 percent of total North Atlantic passenger traffic; as well as 58 percent of total international traffic in Europe (ICAO, 1977).

The deregulation of air transport markets over the past 40 years has produced significant structural developments within the charter industry. In the U.S., charter traffic was adversely affected by the Airline Deregulation Act of 1978: most of the supplemental carriers collapsed in the years that followed (Doganis, 2002). In Europe, after the implementation of the Third Package of air transport liberalization in 1993, the scheduled services operated by low-cost carriers (LCCs) replaced charter services on many short-haul routes (Williams, 2001). Facing the serious threat posed by the LCCs, charter airlines have promoted seat-only sales or developed long-haul products to raise the aircraft utilization and reduce the flying cost (Williams, 2010). Such as European carriers started long-haul charter operations between Japan and the EU in the 1990s, to carry Japanese visiting European cities on routes that were not served by scheduled flights.

In Asia, some countries have opened up their airports for charter flights. For example, the Japanese government introduced affinity charters and own-use charters to Japan in 1970s, and introduced ITCs at the end of the 1980s. Nevertheless, in 2006, charter traffic only accounted for four percent of total international passenger traffic in Japan (JTB, 2006), mainly because a combination of regulatory constraints and aggressive fares of scheduled airlines has limited charter services in Asia (Doganis, 2002). Since 2007, Japan has deregulated charter services to promote outbound tourism. During the process of deregulation, the regulated Japanese charter market has been replaced by an integrated

* Corresponding author. Tel.: +86 28 8541 2312; fax: +86 28 8541 7695.

E-mail address: wuchuntao@gmail.com,
chuntao@urban.env.nagoya-u.ac.jp (C. Wu).

market operated by full-service airlines (FSAs), LCCs and charter airlines. Some important changes are emerging that must be addressed by the tourism and aviation industries.

The study purpose of this paper is to investigate the extent to which the Japanese outbound charter market has changed since 2007, with respect to departure airports, major destinations and charter carriers. Furthermore, this study focuses on the effects of new entrant airlines, such as LCCs, in short-haul, medium-haul and long-haul charter market operations. For the purpose of this study, charter supply data is analyzed and case studies are presented for three key routes from Japan to Korea, Pacific resorts and Europe. This study is important for both airport and destination authorities who aim to use the charter business to promote airport operations and international tourism.

2. Deregulation of international charter service in Japan

The Japanese national government has promoted charter operations since the 1980s to rejuvenate local airports and stimulate international tourism in regional areas. In 1987, the national government announced the ‘Ten Million Program’ to double the number of Japanese passengers traveling overseas; while charter flights were used to facilitate greater use of regional airports as outbound gateways (Nozawa, 1992). Then, the government improved the airport facilities and adjusted the customs, immigration and quarantine (CIQ) policies to promote international charter operations in regional areas; such as opening a CIQ office at the times charter flights arrived/departed or sending CIQ staff members (CIQ mobile office) to domestic airports to handle charters (MCA, 2000). The consequence of these promotions was an increase in charter traffic to regional airports. Between 1990 and 2001, the number of regional airports that served international charters increased from 27 to 37; although the number of regional airports that operated international scheduled flights only increased from 10 to 20.

Traditionally, in Japan, tour operators chartered the flights from airlines and packed the seats with accommodations and land tours. Alternatively, FSAs operated charters under the requirement of tour operators to meet seasonal, location-specific and event-specific leisure demand to a variety of destinations: metropolitan cities, heritage sites, sun and sea resorts, and destinations where tourists can enjoy natural scenery such as maples, the Northern Lights or glaciers. Compared with scheduled flights, charters have played a significant role in tourism development by meeting a

dispersed travel demand from regional areas and have reached more regional airports than scheduled flights (Wu et al., 2012). Realizing that the charter business presents an opportunity to stimulate demand for air tours, many regional authorities used to provide subsidies to charter passengers or to tour operators organizing charter tours. Nevertheless, they seldom provided subsidies to charter carriers.

Japan deregulated the domestic airlines market in 2000 by implementing the new Airlines Act which applied equally to charter airlines and scheduled airlines. Since then, Japan has pursued an active policy of deregulation in the international charter sector (Table 1). For example, in 2001, Japan lifted restrictions regulating the number of charters operated by Taiwanese airlines, and introduced charter service to Haneda Airport. Initially, the number of inbound charters increased from 1200 flights in 2002 to 3468 flights in 2006. Conversely, the outbound charter traffic declined from 2806 flights in 2002 to 2127 flights in 2006, resulting from the trend to change from visiting abroad to domestic trips, especially after the 9/11 terrorist attack (2001) and the SARS outbreak (2003) (Wu et al., *in press*). For that reason, the Japan Association of Travel Agents (JATA) asked the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) to adopt a more liberal approach to promote outbound tourism in 2006.

In line with its mandate to promote international tourism, MLIT responded to JATA's request by taking further steps toward deregulation in May 2007 and December 2008 in three aspects (Table 1). First, it unbundled accommodations from charter seats. This included the 2007 abolishment of the 50 percent rule which required overnight stays for more than half of the travel itineraries in the countries where the charter arrived. In addition, 100 percent seat-only sales on selected routes were offered in 2008. Second, MLIT enabled and encouraged non-Japanese airlines to operate charter flights between Japan and third countries. Third, it deregulated entry restrictions on charter services and waived the limitation on routes and capacities. As Narita, the biggest international airport in Japan, added landing slots, MLIT announced its intent to promote the charter business in Narita at the end of 2008 by allowing charters to be operated on routes served by scheduled flights. Furthermore, MLIT allowed Haneda to serve long-haul charters in 2010 to further internationalize Haneda, as urged by the Asian Gateway Initiative.

This study is focused especially on the airport and airline industries. According to the 2008 New Airport Act, airports in Japan have been classified either as “major international airports” (Narita, Haneda, Kansai and Chubu) or “all others”

Table 1
Deregulation of international charter service in Japan from 2001 to 2008.
Source: MLIT.

Year	Main contents
2001	Restrictions regulating the number of charters operated by foreign carriers start to be lifted. International charters introduced to Haneda.
2002	Off-line airlines allowed to operate ITCs to Narita.
2003	Affinity charters allowed to be operated by two or more tour operators. Charter carriers permitted to retail 50% of the seats to the general public through the computer reservation system (scheduled charters arriving/departing from Haneda in the late-night/early-morning time zone only, such as scheduled charters between Haneda and Gimpo).
2005	Passenger and cargo combination charters permitted.
2007	Filing period shortened for charter flights bound to regional airports. Fifty percent rule requiring overnight stays for more than half of the travel itineraries in the country where the charter arrived abolished. Non-Japanese airlines allowed to operate charters between Japan and a third country, with the permission of Japanese airlines on a case-by-case basis. Entry restrictions on charter services removed and limitations on routes and capacity waived, except at Narita, Kansai, Haneda and Chubu.
2008	Third country airlines allowed to operate charters to Japan, without the permission of Japanese airlines. One-hundred percent seat-only sales allowed on routes from Japan to South Korea, Thailand, Macau, Hong Kong, Vietnam, Malaysia and Singapore. Fifty percent seat-only sales allowed on routes from Japan to other countries. Fifty percent discount provided on landing charges for charters going to regional airports. Charter business promoted at Narita airport, such as allowing charters to be operated on routes served by scheduled flights; and waiving the limitations on frequency.

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