

The Japan-Australia Air Route

Working Paper

The Bureau undertook this study to identify and analyse the factors which have influenced the supply and demand for air services on the Australia-Japan route and to examine the future prospects for the route. The study examined the factors which influence the Japanese overseas travel market, such as government policies, the supply of aviation infra-structure, the structure of the Japanese tour consolidation industry and the conduct of the airlines operating on the route. It also examined how the prices of holiday packages to Australia compared with similar packages to competing destinations.

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Bureau of Transport and Communications Economics

WORKING PAPER 5

**THE JAPAN-AUSTRALIA
AIR ROUTE**

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FOREWORD

The number of Japanese tourists visiting Australia has grown rapidly in recent years and strong future growth is expected. The Australian Tourist Commission has set a target of 1.8 million Japanese visitors to Australia per annum by the year 2000. Surveys carried out in Japan indicate that about 40 per cent of Japanese surveyed named Australia as their preferred destination for future overseas travel. These surveys indicate that Australia may not be attracting our potential market share of Japanese outbound tourism.

The Bureau undertook this study to identify and analyse the factors which have influenced the supply and demand for air services on the Australia-Japan route and to examine the future prospects for the route. The study examined the factors which influence the Japanese overseas travel market, such as government policies, the supply of aviation infrastructure, the structure of the Japanese tour consolidation industry and the conduct of the airlines operating on the route. It also examined how the prices of holiday packages to Australia compared with similar packages to competing destinations.

The study was undertaken to provide input to the development of Australia's aviation policy and to the public debate on aviation issues. In some areas it was not possible to undertake as detailed an analysis as we would have liked due to the unavailability of data. For this reason the work has been published as a working paper, rather than as a full report. Further work on the topic will be considered if additional data become available.

In the preparation of this paper Bureau staff paid a number of visits to organisations involved in this market. I would like to thank all the industry representatives for their valuable assistance.

The study team was led by Dr Neil Ada, who was ably assisted by Ms Pip Spence and Ms Catherina Williams.

Hugh Milloy
Research Manager

Bureau of Transport and Communications Economics
Canberra
July 1992

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ABSTRACT

In recent years, the number of Japanese tourists visiting Australia has increased to such an extent that Japan is now Australia's largest source of tourists, having risen from sixth position in 1986. Despite this growth, Australia may not be attracting the maximum potential level of Japanese tourists as indicated in Japanese travel preference surveys.

Given the significance of the Australia-Japan air route to the Australian economy, the study focused on the determinants of supply and demand on the Japan-Australia aviation route, with particular attention given to the Japanese tourist market. In addition, the factors which might constrain future growth in the number of Japanese tourists visiting Australia were discussed.

The evidence from the study suggested that air fares on the Australia-Japan route and package prices for holidays in Australia tended to be higher than those that would be found in more competitive markets. The major reasons for Australia being a relatively high priced destination for the Japanese in recent years were considered to include the aviation regulatory framework prior to the liberalisation initiatives of February 1992, the limited competition between the airlines providing direct services between the two countries and the price of accommodation in Australia. Because of the limited presence of third country carriers, these operators were unable to make a significant contribution to the level of competition on the route.

In the longer term the main constraint on growth in the market may be the availability of landing slots and other facilities at some Japanese airports.

As the Japanese economy is expected to continue to grow strongly in the longer term, there is likely to be increased demand for international travel by the Japanese. If Australia is to maintain and expand its share of the Japanese tourist market, greater attention may need to be given to overcoming supply constraints, and to improving Australia's overall price competitiveness.

SUMMARY

In the past decade, the number of Japanese visitors to Australia has expanded markedly, from about 34 000 in 1978 to nearly 530 000 in 1991. As a result of this growth, Japanese visitors comprised 22 per cent of all visitors to Australia in 1991. The level and potential future growth of Japanese tourism make the Japan-Australia aviation route of vital importance to our tourism industry.

Despite the rapid growth in the number of Japanese visiting Australia, some Japanese travel preference surveys have indicated that Australia may not have been attracting its potential share of the Japanese tourism market. Given the considerable national economic benefits derived from Japanese tourists, any impediments to achieving the maximum potential growth are worth discussing, together with possible ways of overcoming them.

The factors which influence the Japanese overseas travel market were examined in the study, and the possibility of a problem existing in one or more of these segments was discussed. The study focused on relevant government policies, the supply of aviation infrastructure, the structure of the Japanese tour consolidation industry, the conduct of the international airlines operating on the route and a general examination of how Australia compared with other destinations. In addition, the contribution of the Japan-Australia aviation route to Australia's balance of payments was assessed.

There are good prospects for increasing the number of Japanese tourists to Australia. This is in part due to a continuing growth in the demand for international travel in Japan. The outbound Japanese tourism market has undergone rapid growth over the last ten years, mainly due to the sustained economic growth during the 1980s and a supportive Government outbound tourism policy. As the Japanese GDP is expected to continue to grow strongly in the longer term, and given the high Japanese income elasticity of demand for travel, this sustained economic growth is expected to add further to demand for international travel.

Australia's share of the Japanese market in 1991 was nearly 5 per cent, or about 530 000 Japanese visitors. The Australian Tourist Commission is aiming to increase the number of Japanese visitors to a targetted 1.8 million by the year 2000. While this may sound impressive, there is some indication that Australia may not be attracting its full potential of the Japanese tourist market. This study aimed to highlight some of the factors which may have created a discrepancy between the perceived potential demand and actual visitor numbers.

Price Competitiveness

One factor that may have affected the number of Japanese tourists visiting Australia was the price of a holiday in Australia compared to alternative destinations. Australia appears to have been a relatively high priced destination in respect of medium priced package tours, which comprise the major segment of the Japanese travel market. A Qantas study in 1990 indicated that medium priced multiple destination Australian holidays at any time of the year were about Yen 50 000 - 200 000 more expensive than similar length holidays to Hawaii and the US West Coast. Single destination holidays to Cairns via Hawaii were priced at a premium of about Yen 30 000. Packages to London or Paris were similarly priced below a Cairns holiday.

As 74 per cent of Japanese tourists visiting Australia in 1990 used an inclusive travel package, an analysis of the factors which influenced the price of these travel packages was included in the study. The major factors affecting the prices of the travel packages were considered to be accommodation prices in Australia and the air fares charged by the international airlines operating direct services on the Japan-Australia route.

The study found that tour consolidators do have some market power with which they can influence the level of traffic to a particular destination. However, no substantive evidence was found to suggest that the structure of the Japanese tour consolidation industry represents a significant barrier to the continued development of the Japan-Australia tourist market.

Given the fact that the average occupancy rate in four and five star hotels was around 62 per cent in 1991, it would appear that these sectors of Australia's accommodation industry were competitive. However, there was evidence to suggest that the prices in Australian hotels were higher at that time than the international average, including competing Western destinations.

An analysis of the published economy and pex (discount) air fares on a kilometre basis for 1991 showed that the Tokyo-Sydney route had the second highest airfares per kilometre of six competing destinations. It appears that the airlines providing direct services on the Japan-Australia route exercised a degree of market power when setting economy and pex fares. They appear to have been able to set higher air fares because of the relatively low level of competition on the route.

The limited competition between the designated carriers partly reflected the highly concentrated nature of the market and the barriers to market entry which existed before the recent liberalisation of Australia's international aviation policy. Other factors which adversely influenced competition on the route in recent years were the overall capacity limits and the way in which the total capacity was distributed between the designated carriers, as determined through the Air Services Agreements.

The limited carriage of traffic between Japan and Australia by third country airlines tended to reinforce capacity limits and reduce downward pressure on prices.

Capacity constraints are a feature of Japanese airports, especially at the two largest centres, Tokyo and Osaka. The ability of the designated airlines to offer additional flights was therefore limited by the slots at their disposal.

The evidence presented in this study suggested that these market impediments have resulted in air fares being higher on the Japan-Australia route than they would have been in a more competitive market. Whether the high air fares tended to depress demand, or instead resulted in the designated carriers reaping the rewards of high prices, depends on assumptions regarding demand elasticities.

Because of the supply constraints on the route, it may be that the higher air fares charged were the most efficient rationing mechanism available to the airlines. It should also be noted that the aim of the airlines is a commercial one; maximise profits where possible. In this sense it is understandable that the airlines continued to maintain higher prices rather than introduce penetration pricing.

Regardless of these explanations for the higher air fares on the route, if Australia is to maintain and expand its share of the Japanese outbound tourist market, attention may need to be given to overcoming supply constraints and to improving Australia's overall price competitiveness.

Recent changes in Australian aviation policy are likely to encourage increased Australian carrier presence on the route. The comprehensive agreement reached with New Zealand which provides Air New Zealand with a range of opportunities to exercise beyond rights out of Australia, including to Japan, will be a significant force in promoting competition on the route.

CHAPTER 1 INTRODUCTION

International aviation services are critical to Australia's tourism industry. Over 99 per cent of international visitors travel to and from Australia by air. Some 2.2 million people visited Australia in 1990, with the main originating regions being Asia (including Japan) with 38 per cent, Europe (including United Kingdom and Ireland) with 25 per cent, New Zealand with 19 per cent and North America with 14 per cent. Japanese visitors comprised over 22 per cent of all visitors in 1991. Because approximately 88 per cent of these visitors are travelling for leisure reasons, this makes the Japan-Australia aviation route of vital importance to our tourism industry.

The number of Japanese visitors to Australia has expanded markedly in the past decade, from about 34 000 in 1978 to nearly 530 000 in 1991. The Japanese share of total visitors to Australia has increased threefold in the same period, from just over 5 per cent to over 22 per cent. From sixth position in 1986, Japan is now Australia's largest source of tourists.

Given the significance of the Australia-Japan air route to the Australian economy, a study was undertaken to identify and analyse strategic factors in this market. In particular, the study addressed whether there was evidence of potential for growth in the market, and analysed the factors that might constrain future growth in the number of Japanese tourists to Australia. In addition, the value of Japanese visitors to Australia's balance of payments was assessed.

The study concentrated on the determinants of demand and supply in the Australia-Japan air route, with particular attention being given to the tourist market. Although account was taken of the accommodation and other land based tourism facilities required to meet the needs of Japanese tourists, a detailed examination of these facilities was beyond the scope of the study.

Chapter 2 describes the demand for Japanese outbound travel, which includes the influence economic growth and Japanese Government initiatives have had on Japanese outbound tourism. The current importance of Japanese tourism to Australia is examined and the available forecasts of Japanese travel to Australia to the year 2000 are discussed.

Chapter 3 examines the supply of aviation services by the operators on the Japan-Australia route. This includes a discussion of the impact of capacity restrictions on the level of airline competition on the route. An assessment of the conduct of Japanese and Australian designated airlines is provided, together with a description of constraints imposed by airport infrastructure.

Chapter 4 describes an analysis of market constraints and future prospects for the Japan-Australia aviation and tourist markets. It examines the conduct of various market participants and assesses the various impediments to market growth. A number of ways of removing or reducing these impediments to improve national economic returns are assessed. Chapter 5 summarises the study.

The data used in the preparation of this report were obtained from published sources, consultation with industry representatives, application of the BTCE Aerocost model and a Qantas paper on outbound Japanese tour packages to competing destinations.

CHAPTER 2 JAPANESE OUTBOUND TRAVEL

Japan has experienced an enormous overseas travel boom in the last three decades. Japanese overseas travel has grown from 350 000 per year in the late 1960s to almost 11 million in 1990. Obviously, the attractiveness and availability of travel for the Japanese have changed significantly over this period.

The demand for travel is increasing for two main reasons. Firstly, the international situation in general has provided the political stability and in turn, personal security for travellers to most destinations. For example, both Australia and New Zealand have been prime examples of political stability and travel security over the years. Travel to the United States and Western Europe, on the other hand, has at times been influenced by security concerns.

Secondly, Japan has experienced steady economic growth and changing social trends. The sustained economic growth, the increasing availability of leisure time, combined with increases in wealth resulting from spiralling land and home prices, are all factors which have stimulated the demand for overseas travel.

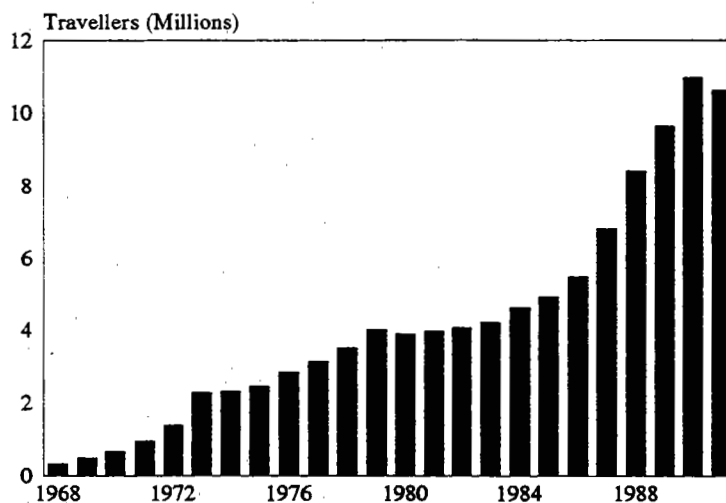
Even though there has been extraordinary growth in the number of Japanese outbound journeys, there still appears to be the potential for further growth in the market. For example, the number of Japanese outbound journeys was only 78 per thousand head of population in 1989. Given the geographical differences, it is understandable that there are a greater number of outbound journeys per head of population from countries such as Germany (461 per thousand), France (203 per thousand), and the United Kingdom (539 per thousand) than from Japan. It would be expected, however, that over time the figure for Japan would grow to be comparable with the United States (168 per thousand) and Australia (118 per thousand). Even though the number of Japanese outbound journeys increased to 89 per thousand head of population in 1990, this is still less than countries such as the United States and Australia (Travel Journal International, 1992).

The rapid growth in both the number of Japanese international travellers and in the magnitude of their expenditure, has prompted us to examine more closely the main determinants of Japanese outbound travel, and in particular, the characteristics of Japanese travel to Australia. Because of the policy developments towards a single Trans Tasman aviation market, characteristics of Japanese tourists in New Zealand have also been included in this analysis.

DETERMINANTS OF JAPANESE OUTBOUND TRAVEL

There has been large and sustained growth in Japanese outbound travel since the 1960s (see figure 2.1). After the liberalisation of currency restrictions in April 1984 which enabled widespread access to overseas travel for all Japanese, outbound travel grew at an average rate of 24 per cent per annum between 1964 and 1979. The slowdown in growth between 1973 and 1975 corresponded with the first world oil crisis. In 1980, the number of outbound travellers actually fell for the first time, due to the inflationary pressures of the second oil crisis. Following the Gulf Crisis in late 1990, Japanese outbound travel experienced its second fall, with preliminary figures showing a 3.4 per cent fall on 1990 numbers to 10 623 000. Between 1979 and 1986, outbound travel grew at about 5 per cent per annum. The growth rate since 1986, however, has averaged 14 per cent per annum.

Japanese outbound travel can be separated into two principal market segments, holiday and business. The holiday market accounts for over 70 per cent of overseas trips by the Japanese and consequently the analysis concentrates on this segment.



Source MOT (1991).

Figure 2.1 Japanese outbound travellers, 1968-1991

The major influences on Japanese outbound travel can be attributed to income/price and non-price effects. Favourable economic developments have influenced the growth in Japanese international travel, notably sustained real growth in national wealth, and a currency which appreciated markedly during the 1980s, resulting in a decline in real overseas travel costs.

Also contributing to the demand for international travel are non-price determinants such as, government policies, market agents and social changes in Japanese lifestyles.

The following section analyses these factors and then discusses their relevance to the Japan-Australasian aviation market.

Sustained growth of disposable income

The Japanese economy has enjoyed high and sustained growth in the last two decades, with one of the highest growth rates among OECD countries (see table 2.1). Between 1971 and 1990, Gross National Product (GNP) increased by over 140 per cent in real terms, an annual average growth of nearly 4.6 per cent. The three years up to 1990 saw GNP increase in real terms by 5.5 per cent per annum.

**TABLE 2.1 REAL GNP/GDP GROWTH OF SELECTED COUNTRIES,
1971-1990**

(average percentage growth per annum)

	<i>1971-75</i>	<i>1976-80</i>	<i>1981-85</i>	<i>1986-90</i>	<i>1971-90</i>
Canada	5.2	4.0	2.9	3.0	3.8
France	3.5	3.1	1.5	3.1	2.8
Germany	2.1	3.4	1.2	3.0	2.4
Japan	4.3	4.9	4.0	5.0	4.6
United Kingdom	2.3	1.7	1.9	3.2	2.3
United States	2.2	3.4	2.6	2.8	2.8
Australia	2.8	2.2	2.2	3.7	3.0

Source OECD (1991).

This growth in GNP is reflected in the rapidly increasing disposable income of Japanese families. Per capita income in real terms has risen from Yen 1.1 million in 1967 to Yen 2.6 million in 1987, a rise of 134 per cent. Over the same period, real Australian income per capita grew by 49 per cent.

Japan's increasing disposable income per capita enables the population to either consume more goods and services, of which international travel is one item, or increase savings. Although national savings in Japan have remained at high levels,

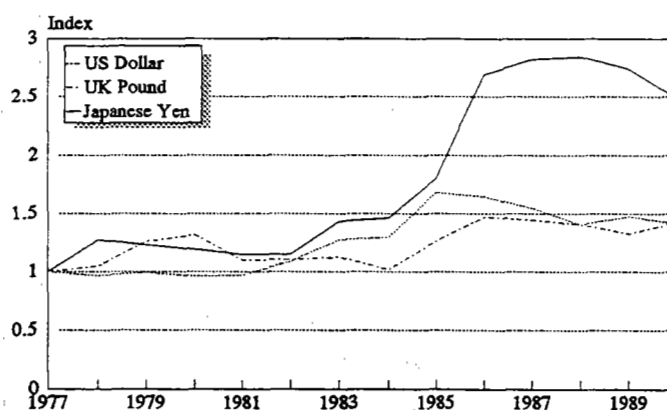
they are steadily decreasing. In 1978, Japanese savings as a percentage of household disposable income was 20.8 per cent, but by 1986 had declined to 16.6 per cent. With increasing incomes and less being saved, the Japanese have been able to consume more, particularly travel related services.

The 1992 slowdown of the Japanese economy is not expected to have any significant impact on the volume of the Japanese outbound tourism market, or on the number of Japanese tourists to Australia. However, it has been suggested that some effects which might be felt include a fall in average expenditure by Japanese tourists, a tightening of the business market (for example, downgrading from first to business or business to economy), and a reduction in the size of 'incentive groups' (that is, reward trips to employees paid for by the corporation) coming to Australia (BTR, 1992a).

Relative cost of travel

The significant growth in outbound travel in the 80s was in part due to the decreasing real cost of travel, resulting from relative currency movements in the 1980s.

Figure 2.2 charts the relative currency movements of the US dollar, Sterling and Yen compared with the Australian dollar for the period 1977 to 1990. The Yen rapidly appreciated against the Australian dollar between 1984 and 1987. The United States dollar strengthened with the Yen until 1985, but then depreciated. The pound fluctuated in the early 1980s and then stabilised during the latter half of the period. The overall picture is of the Yen appreciating against world currencies from around 1985.

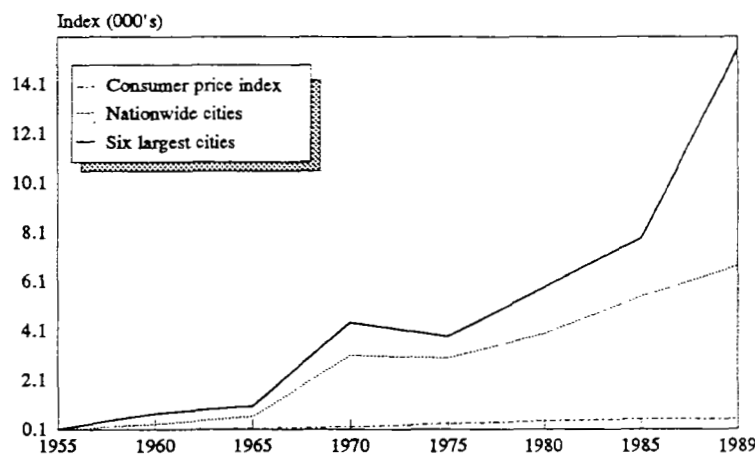


Source ABS (1991b).

Figure 2.2 Exchange rate movements against the Australian dollar (1977 = 1)

This appreciation of the Yen has made the cost of overseas travel significantly cheaper for the Japanese and this is considered to have had a significant positive impact on the Japanese decision to travel.

Another factor which might have some impact on the demand for travel is increasing land prices. Since 1955, there has been a steady increase in land prices in Japanese cities (see figure 2.3). However, it has been the last 15 years which have seen land prices soar to quite staggering levels, particularly in Tokyo. In the top six cities, land prices have risen in excess of 10 per cent per annum since 1975. At the same time, inflation has averaged only 3.5 per cent per annum.



Source ATC (1990).

Figure 2.3 Land price index in Japan (1955 = 100)

This rise in urban property values has seen the personal assets of some Japanese appreciate tremendously, creating a population category known as the 'New Rich'. It is partly these new asset rich households (and those with large disposable incomes) that have contributed to the boom in the demand for outbound travel.

Government policies

Another determinant of Japanese outbound travel demand is the policies the Japanese government has used to promote travel. Overseas travel has been seen as a means of cultural exchange and the chance to contribute to the 'internationalisation' of Japan. Moreover, the Japanese Government saw overseas travel as a means of reducing the country's substantial balance of payments surplus (see table 2.2).

TABLE 2.2 JAPANESE BALANCE OF PAYMENTS, 1980-1991

(Aus\$ billion)

1980	-9.3
1981	4.2
1982	6.7
1983	23.8
1984	40.6
1985	73.9
1986	126.7
1987	120.8
1988	100.3
1989	75.7
1990	45.4
1991	88.5

Source OECD (1992).

Following West Germany's successful idea of reducing its balance of payments surplus by promoting overseas tourism, the Japanese Government developed a number of initiatives to generate demand for travel, particularly to overseas destinations (Australian Tourist Commission, 1990). These initiatives included a program to double the number of overseas travellers in five years and a public campaign to increase the number of non-working days for the workforce.

In September 1987, the Japanese Ministry of Transport (MOT) launched its Ten Million Program, which aimed to double the annual number of Japanese tourists going overseas from 5.5 million during 1986 to 10 million per year by 1992. The ten million target was achieved in 1990, two years ahead of schedule.

In July 1991, the MOT formulated a new tourism policy called 'Two-Way Tourism 21'. Unlike the Ten Million Program, the new policy is aimed at facilitating the tourist flow both to and from Japan. The MOT will continue to encourage Japanese outbound travel, but there is now an emphasis on quality overseas travel, so that Japanese travellers can gain a greater understanding and respect for the culture, customs, religions, and social heritage of the countries they visit.

A second policy which helped to promote outbound travel was the relaxation of control of Japan's airline industry in 1986. The government allowed Japanese carriers in addition to Japan Airlines to fly international routes and allowed a greater number of foreign airlines to serve Japan (Travel Journal International, 1992). In

1986, All Nippon Airways (ANA) began international operations and Japan Air System (JAS) followed in 1988.

The motivation for the international deregulation was primarily to improve competition. However, in the Japanese context, this mainly meant an improvement in customer service, rather than price competition. This improvement in customer service is thought to have had a beneficial effect on Japanese outbound travel.

Given the pressures of a large positive trade balance, the Government has introduced a program to promote leisure. This has involved encouraging employers to reduce overall working hours and bring the country more in line with other industrialised countries. For example, in 1988 the average working hours per person per year were 2189, 1962 and 1642 for Japan, the United States and West Germany respectively. In 1988, the Government proposed that work time be gradually reduced over a five year period to the target of a 40 hour, five day week.

The Government also actively campaigned for workers to take more of their entitled paid holiday time. Currently, Japanese workers only take on average 60 per cent of their entitlements. Since long consecutive holidays are desirable for overseas travel, the Government hoped that the reduction in work hours and the campaign to take more entitled leave would result in more outbound travel.

Marketing agencies

Marketing agencies or tour consolidators play a significant role in the outbound tourist market in Japan by planning and organising package tours and dealing directly with airlines, hotels and ground operators in the destinations. Some of the marketing agencies are closely associated with, or are subsidiaries of, other organisations involved in tourism, including airline companies and accommodation groups.

Japanese tour consolidators

Most travel services from Japan are purchased through tour consolidators, rather than directly with international airlines. In 1990, over 90 per cent of international leisure travellers from Japan purchased services through a consolidator. The characteristics of the Japanese travel market, with buyers desiring special services and products as opposed to standardised services, are likely to see this trend continue. As a result the tour consolidators may well have significant influence within the international travel market, as discussed in Chapter 4.

The Japanese tour consolidators also perform a major value-added service for the international airlines by providing a year-round client base. The high demand occurring ex-Japan, particularly during the June to September period appears to be such that the airlines could fill capacity without reliance on the specific services of the tour consolidators. However, the consolidators are able to smooth out the peaks

of demand and provide an appropriate distribution of clients to the international airlines throughout the year. The major travel consolidators have continued to expand their purchasing mechanisms, making long-term volume purchasing a common feature of most operations.

Under Japanese law, there are three classifications of travel agents, general travel agents, domestic travel agents and travel sub-agents. Only general travel agents are licensed to perform international travel operations, while travel sub-agencies are licensed to perform only as intermediaries for the general and domestic agencies. In 1965, there were 62 general travel agencies and no sub-agencies dealing with international travel. By 1990, this had grown to 733 general agencies and 3572 sub-agencies (Travel Journal International, 1992).

Major participants

The top 35 tour consolidators market an extensive range of travel products designed to appeal to the specific needs of their clients. These firms had a combined turnover of Yen 4 837 billion in 1990, of which just over 40 per cent was spent on overseas travel. The largest market targeted by the tour consolidators is the domestic market which accounts for almost 60 per cent of their turnover.

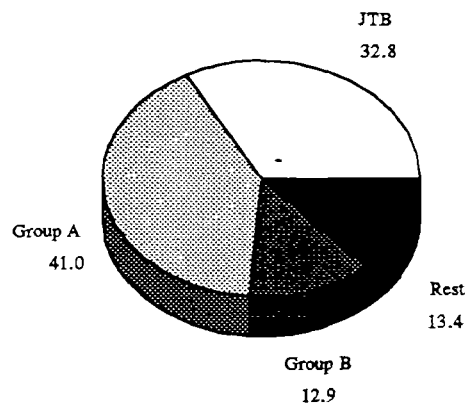
One market in which the Japanese tour consolidators play a very small part is the Japanese inbound market. In 1990, Japan's top 35 travel firms only handled 194 000 travellers in a market of 3.2 million foreigners visiting Japan.

The largest tour consolidator, Japan Travel Bureau (JTB), has over 23 per cent of the outbound tourism market and almost 30 per cent of the total travel market (including inbound and domestic tourism). JTB claims to service 25 per cent of the market to Australia and planned to sell an estimated 105 000 tour packages in 1990. In 1989-90, JTB had total assets of about \$19 million and employed 9 600 staff in 353 branches. JTB has an advantageous geographic retail location around Japan's railway stations, as before the break-up and privatisation of the Japanese National Railway (JNR), JTB was its travel arm.

As shown in figure 2.4, JTB has nearly 33 per cent of the total market turnover for the top 20 firms. The next four in order of decreasing total sales, namely Kinki Nippon Tourist, Nippon Travel Agency, Tokyu Tourist and Nippon Express, (group A in figure 2.4), account for nearly 41 per cent. The following four, namely Nokyō Tourist Corp. (formerly CO-OP Travel Service), Meitetsu Travel Service, Hankyu Express International and Japan Creative Tours, (group B), account for 13 per cent. Of the top 20 firms, 13 provide inbound tour sales, 19 provide domestic tour sales and all provide international tour sales.

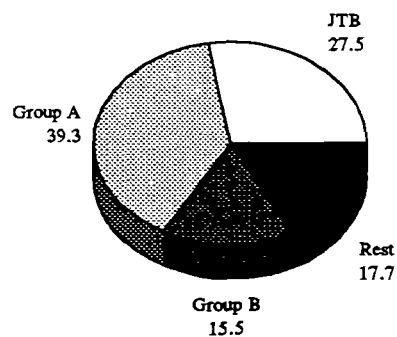
The distribution of the international market turnover for the top 20 firms differs from the distribution of the total market turnover. JTB's share of international turnover is some 28 per cent (see figure 2.5). This smaller portion of turnover

reflects the greater competition within the international market and JTB's success in the domestic scene (36 per cent share) inflating its total market share.



Source Travel Journal International (1992).

Figure 2.4 Top 20 Japanese travel firms' share of the total travel market, 1990



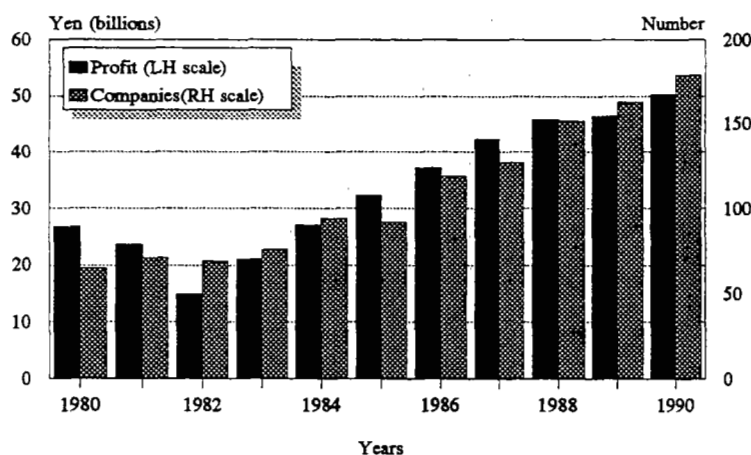
Source Travel Journal International (1992).

Figure 2.5 Top 20 Japanese travel firms' share of the outbound travel market, 1990

The travel boom in Japan has meant financial success for the tour consolidators. Strong growth in all travel sectors (outbound, inbound and domestic) during the

1980s has been clearly reflected in the corporate profits of the tour consolidators (see figure 2.6). Since 1980, profits have risen every year except in 1981 and 1982, when declining profits were attributed to a highly competitive travel market, with almost no growth in the demand for travel in those two years. In 1990, a total of 179 travel companies declared profits in excess of Yen 40 million (approximately \$0.4 million). The sum of profits for these companies totalled over Yen 50 billion, nearly double the Yen 27 billion reported by 65 companies in 1980, the initial survey year.

International airlines serving Japan have come to view the major consolidators as important players within the Japanese travel industry, and this will be discussed further in Chapter 4.



Source *Travel Journal International* (1992).

Figure 2.6 Number and profits of top Japanese tour consolidators, 1980-1990

Social patterns

Japanese society is, and has been for some time, undergoing fundamental changes. The society is becoming more complex as traditional values are discarded by the young and replaced with the values of a modern consumer society.

These changes in Japanese society are due to economic and demographic factors and lifestyle patterns. The economic factors include the growth in disposable incomes and the rise in personal assets of the 'New Rich' due to spiralling land prices.

Japanese society is also ageing and there are many more people in the over 65 age bracket than before. By 1995, 14 per cent of Japan's population will be over 65

years old. Thus, there is a substantial and growing population, with both the financial resources and time, who are demanding travel services.

There is also a change in leisure patterns in Japan. Typical Japanese wage earners have had a different attitude to work and leisure in the past, compared to their western counterparts. Although the Japanese have roughly the same number of holidays per year compared to other industrialised countries, the Japanese worker usually works a six day week with extensive overtime. However, this is now changing, due to both government policy and a 'new breed' of worker.

This 'new breed' mainly comprises young students and graduates working in their first job. These people have a profound difference in their values compared to the traditional older Japanese. The group, having grown up in affluent times, is demanding a modern consumer society, particularly in terms of leisure activities on which to spend their income.

All the above factors are changing the social structure in Japan, one result of which is an increasing demand for travel services. However, the 'average' consumer of travel services is becoming difficult to identify in Japan, and most travel agents and airlines see a degree of market segmentation.

CHARACTERISTICS OF JAPANESE OUTBOUND TRAVEL

There has been remarkable growth in Japanese outbound travel over the last decade, but it has been the tourist or 'sightseeing' sector that has largely driven this growth. Table 2.3 shows the Japanese outbound travel sector for 1983 to 1990.

Tourists comprised 83 per cent of outbound travellers in both 1983 and 1990. In this time, however, tourist numbers have grown from 3.5 million to 9.1 million, a growth of 160 per cent over the seven years. The 'other' sector, which includes study and research, has grown by 139 per cent, although from a very small base.

Market segments

New breed

Young Japanese tourists have made a major contribution to the rapid growth in outbound travel. This group mainly consists of young students or graduates working in their first job, and who have an increased interest in leisure activities.

An important sub-group comprises single working women. They typically work in offices, live at home with their parents and have large disposable incomes. This sub-group places more emphasis on leisure than it would have a decade ago.

In 1990, travellers under 30 years of age comprised nearly 35 per cent of all outbound travel (MOT 1991).

TABLE 2.3 JAPANESE OUTBOUND TRAVEL BY PURPOSE OF TRAVEL, 1983-1990

<i>Year</i>	<i>Sightseeing</i>	<i>Business</i>	<i>Other</i>	<i>Total</i>
1983	3 497 766 (83)	595 585 (14)	138 885 (3)	4 232 246 (100)
1984	3 816 211 (82)	690 715 (15)	151 907 (3)	4 658 833 (100)
1985	4 024 051 (81)	762 793 (16)	161 522 (3)	4 948 366 (100)
1986	4 506 186 (82)	824 224 (15)	185 983 (3)	5 516 193 (100)
1987	5 641 610 (83)	958 262 (14)	229 466 (3)	6 829 338 (100)
1988	7 028 001 (84)	1 120 230 (13)	278 636 (3)	8 426 867 (100)
1989	8 106 523 (84)	1 224 480 (13)	331 749 (3)	9 662 752 (100)
1990	9 085 333 (83)	1 442 526 (13)	469 575 (4)	10 997 431 (100)

- Notes*
1. Figures may not add to totals due to rounding.
 2. Figures in brackets are percentages.

Source Travel Journal International (1992).

Honeymooners

Expenditures by, and holiday duration of, honeymooners have steadily increased in recent years. In the past, most newlyweds spent their honeymoons in Japan. Now, a JTB survey has found that over 95 per cent of newlyweds take their honeymoon overseas. In most cases, an all inclusive package deal was arranged that included the ceremony, reception and trip. Honeymooners also show an increased willingness to pay for deluxe services and do not appear to hunt for bargain packages to the same extent as leisure travellers.

Middle aged couples

Couples in this group with large disposable income are increasingly spending their money on leisure activities. With older couples, the woman is becoming more interested in expanding her activities beyond the household. In particular, overseas travel is becoming ever more attractive. For the man, the traditional work ethic is still very much the norm and leisure is not as highly rated. Japanese aged 30 to 49 comprised the bulk of the overseas market, nearly 41 per cent in 1990 (MOT 1991).

Fullmooners

Japan's population is rapidly ageing, due to a reduction in the birth rate and increasing longevity. This market is therefore steadily increasing. There is a growing proportion of people in this group, looking for travel and cultural experiences. However, they have different needs compared to travellers in the other market segments. Fullmooners prefer fully escorted group tours enabling them to visit as many places as possible. In addition, the beaches and marine sports do not appeal to them as they do for younger people.

Japanese aged over 50 years accounted for over 25 per cent of overseas travellers in 1990 (MOT 1991).

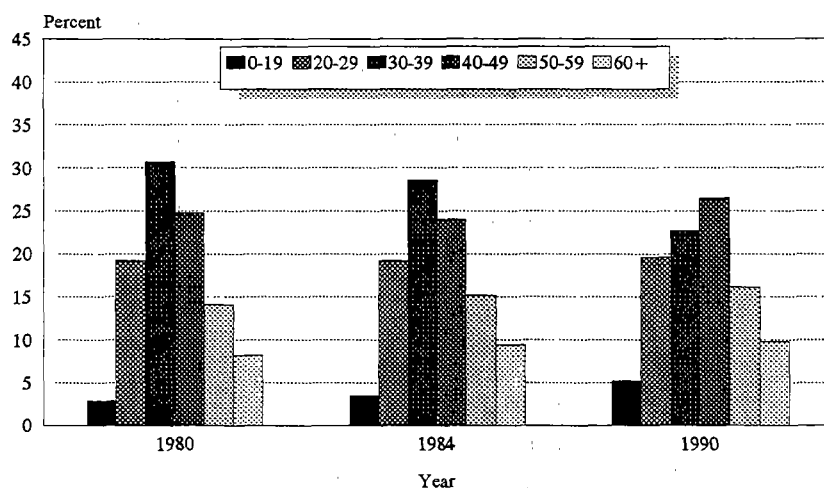
Distribution of overseas travellers by age and gender

Currently, the Japanese outbound travel market is dominated by males. However, the percentage of females in the total population of outbound travellers from Japan has increased steadily in recent years: in 1980 it was 29 per cent, in 1984 it was 33 per cent, and by 1990 it had increased to 39 per cent.

Figure 2.7 shows the percentage distribution of Japanese outbound travellers by gender and age for 1980, 1984 and 1990. For males, the main growth areas are in the under 20 age group which is mainly students, and the over 40 age groups. These increases in shares has been at the expense of the 30-39 age bracket.

Similarly, the under 20 age group for females has shown a significant share increase. The figure shows that the 20-29 age bracket dominates the market share, although the share has not really changed during the 80s. Due to the steady growth rate experienced in this category, the number of Japanese women aged between 20 and 29 travelling overseas has increased more than three fold, from 470 000 to over 1.7 million since 1980.

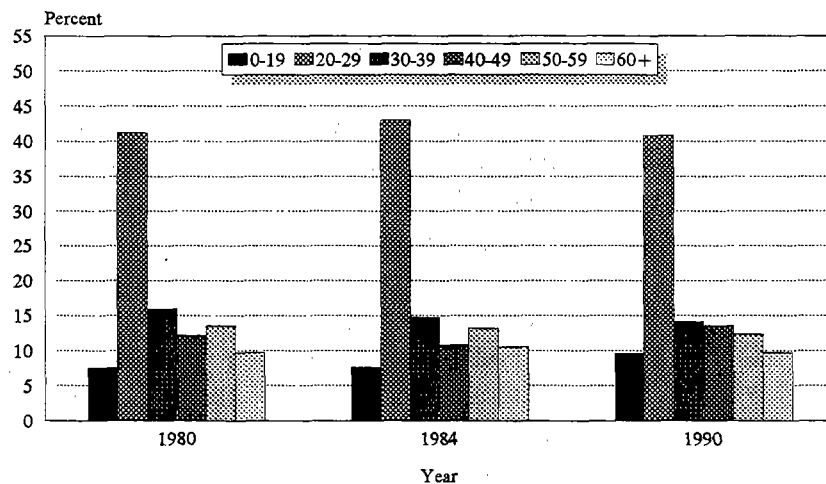
MALES



Source MOT (1991).

Figure 2.7 Distribution of Japanese overseas travellers by age and gender, 1980-1990

FEMALES



Travel origins

The bulk of the overseas travel market demand comes from the Kanto region. This region, which includes Tokyo and satellite cities such as Yokohama, represents about one quarter of Japan's 123 million population. This region alone, however, supplied nearly one half of the total outbound travellers in 1990. Due to the region's population size and economic prosperity, it will remain the most prominent source for outbound tourists. Kinki environs (around Osaka) and Chubu environs

(between Tokyo and Osaka) were the other main sources with an 18 and 15 per cent share of the 1990 outbound travel market respectively (see table 2.4).

TABLE 2.4 JAPANESE OUTBOUND TRAVELLERS BY REGION OF RESIDENCE, 1990

<i>Origin</i>	<i>Outbound</i>	<i>per cent</i>
Hokaido	229 859	2.1
Tohoku	369 619	3.4
Kanto	5 223 115	47.5
Chubu	1 659 737	15.1
Kinki	1 985 956	18.1
Chugoku	388 357	3.5
Shikoku	168 816	1.5
Kyushu	723 078	6.6
Total	10 997 431	100.0

Notes 1. Figures may not add to totals due to rounding.
2. Ordered according to geographic location.

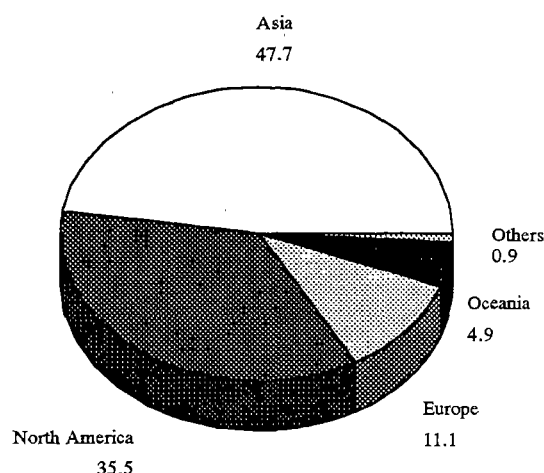
Source Travel Journal International (1992).

Travel destinations

The two most popular regional destinations for Japanese travellers in 1990 were Asia with 42 per cent of the market, and North America with 31 per cent (see figure 2.8). Europe and Oceania both had less than 10 per cent of the market. The most popular countries to visit were mainland USA, South Korea, Hawaii, and Hong Kong with 29, 13, 12 and 12 per cent of the total market respectively. These percentages do not vary greatly when only the tourist sector is examined.

The general preference for first time travellers is to select a destination close to home. With approximately 13 per cent of Japanese outbound travellers making their first trip abroad in 1990, this explains why routes with the greatest seat capacity increases were the Asian and Pacific routes (destinations close to Japan). These routes also account for 75 per cent of all air seat capacity from Japan (Travel Journal International, 1992). South Korea, Guam, Saipan, Hong Kong and Taiwan

are likely to remain priority destinations due to their proximity and the close economic and social ties with Japan. These countries are also more affordable compared to Western countries.



Source *Travel Journal International* (1992).

Figure 2.8 Destinations of Japanese travellers, 1990

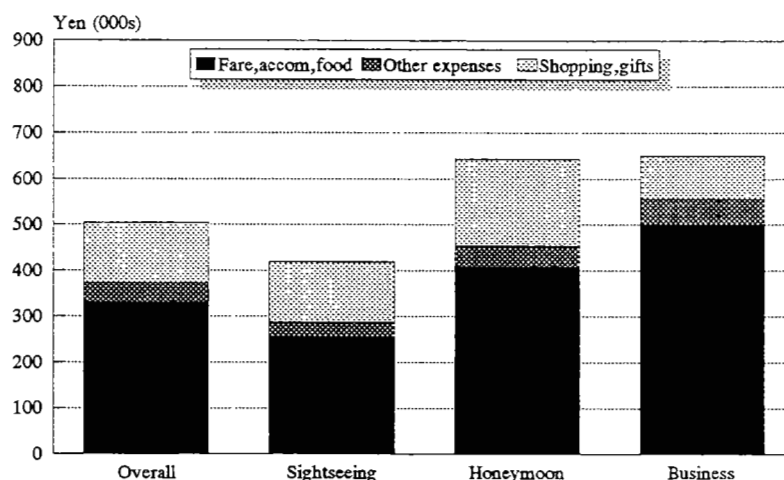
Duration of visit

The average duration of overseas travel remained reasonably stable at about nine days between 1983 and 1989, and falling to 8 days in 1990 for all Japanese outbound travellers (MOT, 1991).

Expenditure

In 1990, it is estimated that Japanese outbound travellers spent a total of US\$24.9 billion (not including fares), at an average of US\$2 266 per person (MOT 1991). This latter figure represents a decrease of 3 per cent on 1989 expenditures.

The 24th Mainichi Shimbun survey showed that, in 1990, outbound travellers allocated about 72 per cent of the total expenditure for fares, accommodation and other expenses (see figure 2.9). The rest was reserved for shopping and gifts. Purpose of travel had a marked influence on both the final amount and the amount spent in each category. Honeymooners and business travellers spent over 50 per cent more than sightseers, while shopping and gifts accounted for only 15 per cent of expenditure by business travellers, compared to nearly 30 per cent for sightseers and honeymooners.



Source *Mainichi Shimbun* (1991)

Figure 2.9 Average expenditure by Japanese outbound travellers, 1990

CHARACTERISTICS OF JAPAN-AUSTRALIA AVIATION DEMAND

In 1988, the number of Japanese visitors to Australia increased by an impressive 62 per cent from the previous year. Undoubtedly, the Expo and Bicentennial celebrations played a significant role in attracting the extra tourists. Japanese visitor numbers then declined in 1989, attributed to high accommodation costs and the problems caused by the domestic pilots' dispute. By 1991, numbers returned to the strong growth pattern of the 1980s, rising to about 530 000.

The number of Japanese visiting Australia has shown sustained growth this past decade. Table 2.5 shows the number of Japanese outbound travellers and total visitors to Australia over the period 1980 to 1991. Japanese visitor numbers to Australia have grown by over 24 per cent on average per annum over this period, but growth really accelerated in 1986 when visitor numbers grew by 35 per cent from 1985.

This growth in Japanese visitor numbers to Australia can in part be explained by the boom in Japanese outbound travel from which many other countries are also benefiting. For example, between 1981 and 1990, Japanese visitors to New Zealand, Korea, Singapore and Hawaii grew by 17, 12, 12 and 8 per cent on average per annum respectively. This compares to Australia's 27 per cent on average per annum over the same period, and although Australia's growth rate is higher than the others, it is, with the exception of New Zealand, from a much smaller base.

The proportion of Japanese travellers visiting Australia compared to total visitors to Australia has increased significantly over the past decade. In 1978, the Japanese share of total visitors to Australia was 5.4 per cent. By 1991, this had increased over four-fold, to over 22 per cent, making Japan the major source of visitors to this country. The fraction of all outbound Japanese tourists which visit Australia is about 5 per cent.

In 1990, approximately 12 per cent of Japanese visitors to Australia, or 57 000 people, included a visit to New Zealand as part of their holiday. These visitors accounted for about half the total number of Japanese tourists to New Zealand. Because of the sizeable overlap in visitors, Australia and New Zealand may be seen as a single market to some extent. With the Government's February announcement of plans to create a single Australasian market between New Zealand and Australia, the number of Japanese visitors choosing to visit both countries may grow. As a result, statistics on the Japanese visitors to New Zealand have been included in the analysis.

TABLE 2.5 IMPORTANCE OF THE JAPANESE TRAVEL MARKET TO AUSTRALIA, 1980 - 1991

<i>Year</i>	<i>Japanese visitors</i>	<i>Per cent of Japanese market</i>	<i>Total visitors</i>	<i>Japanese share of total visitors</i>
1980	48 810	1.2	904 558	5.4
1981	53 700	1.3	936 727	5.7
1982	60 390	1.5	954 674	6.3
1983	71 810	1.7	943 880	7.6
1984	87 880	1.9	1 015 070	8.7
1985	107 590	2.2	1 142 650	9.4
1986	145 610	2.6	1 429 376	10.2
1987	215 560	3.2	1 784 900	12.1
1988	352 320	4.2	2 249 300	15.7
1989	349 540	3.6	2 080 300	16.8
1990	479 900	4.3	2 214 900	21.7
1991	528 500	5.0 ^a	2 370 400	22.3

a Based on preliminary figures

Sources BTR (1992a and 1992b). Travel Journal International (1992).

Table 2.6 provides equivalent information about the importance of the Japanese travel market for New Zealand. From this table it can be seen that, as with Australia, there has been a significant increase in the proportion of Japanese tourists visiting New Zealand compared to total visitors (from 3.6 per cent to 11.9 per cent in the twelve year period).

TABLE 2.6 IMPORTANCE OF THE JAPANESE TRAVEL MARKET TO NEW ZEALAND, 1980 - 1991

<i>Year</i>	<i>Japanese visitors</i>	<i>Per cent of Japanese market</i>	<i>Total visitors</i>	<i>Japanese share of total visitors</i>
1980	19 196	0.5	465 163	4.1
1981	25 736	0.6	478 037	5.4
1982	27 333	0.7	481 726	5.7
1983	32 481	0.8	508 455	6.4
1984	41 888	0.9	567 611	7.4
1985	50 264	1.0	669 558	7.5
1986	62 656	1.1	733 424	8.5
1987	76 150	1.1	844 313	9.0
1988	93 789	1.1	864 892	10.8
1989	97 322	1.0	901 078	10.8
1990	107 840	1.0	976 010	11.0
1991	114 718	1.1 ^a	963 470	11.9

a Based on preliminary figures

Sources New Zealand Tourism Board (1992). Travel Journal International (1992).

Tourist market segments

The holiday market share, as opposed to business travel, accounts for approximately 90 per cent of Japanese travellers to Australia and New Zealand. This is considerably higher than the 70 per cent for all Japanese outbound travellers. Consequently, the holiday market segment is by far the more important to these destinations.

Both Australia and New Zealand's share of Japanese visitors by region of residence is broadly consistent with Japanese worldwide travel patterns. This implies that

these countries' popularity from each of the different regions in Japan, compared with that of other destinations, does not greatly vary from the average.

Table 2.7 shows the origins of Japanese visitors to Australia in 1990. Japan's Kanto region (which includes Tokyo) contains about one quarter of Japan's population, yet supplied 46 per cent of all Japanese visitors to Australia. This, however, is not significantly different to total Japanese outbound traveller origin patterns (refer to table 2.4).

TABLE 2.7 REGION OF RESIDENCE OF JAPANESE TRAVELLERS TO AUSTRALIA, 1990

<i>Origin</i>	<i>per cent</i>
Hokaido	3
Tohoku	3
Kanto	46
Chubu	16
Kinki	19
Chugoku	3
Shikoku	2
Kyushu	6
Other	2
Total	100

Note Figures may not add to totals due to rounding.

Source Travel Journal International (1992).

The only significant difference in the proportion of tourist market segments is the greater percentage share of honeymooners and students coming to Australia. As shown in table 2.8, about 21 per cent of Japanese visitors to Australia in 1990 were on their honeymoon, compared to about 8 per cent for the rest of the world. According to the Japan Travel Bureau's October-December 1991 survey of honeymooners' destination, Australia is still the number one destination with 26.7 per cent of the market. The reason for Australia's popularity with this segment appears to be due to the very aggressive marketing of special honeymoon services by agencies such as Japan Travel Bureau.

Japanese visitors spent an average of 13 nights in Australia in 1990, considerably more than the average Japanese world trip duration of nine nights. The reasons for this may be due to, firstly, the high proportion of tourists visiting Australia compared to the rest of the world (tourists tend to have longer trips than business visitors). Secondly, the market for Australian holidays is partly dictated by its geographical features. It is a 'long haul' destination at the 'end of line', that is with little or no stopover trade. This means Australia attracts the tourist who is able to commit more in the way of time.

TABLE 2.8 JAPANESE HOLIDAY MARKET SEGMENTS,
AUSTRALIA VERSUS OVERALL INTERNATIONAL
DESTINATIONS, 1990

(per cent)

<i>Market segments</i>	<i>Australia</i>	<i>Overall</i>
Students	10.9	2.8
Office ladies	10.9	12.9
Honeymooners	20.7	8.2
Middle-aged females	14.7	12.4
Mature	24.8	27.3
Other	18	36.4
Total	100.0	100.0

Note Figures may not add to totals due to rounding.

Source Mainichi Shimbun (1991).

As can be seen in table 2.9, preliminary results from the 1991 International Visitor Survey indicate that there has been a significant fall in the average number of nights spent in Australia, from 13 in 1990 to 8 in 1991. Some industry sources feel that this is the result of a decline in long term visitors, and the fact that the median nights spent in Australia has remained constant at 6 is more important to note.

There has been a growth in demand for 'golf' weekend holidays-over the last 18 months which would also have influenced the decline in average nights spent in Australia. These 'weekenders' are thought to be incentive trips offered by Japanese

corporations, as they are not subject to a fringe benefits tax. As proximity is an important feature of these incentive tours, a relatively short haul destination, such as Cairns, offers an attractive alternative to Guam or Saipan.

TABLE 2.9 TIME SPENT AWAY FROM HOME BY JAPANESE TRAVELLERS TO AUSTRALIA, 1990-1991.

<i>Trip away from home</i>	<i>1990</i>	<i>1991</i>
Average nights away from home	17	12
Average nights in Australia	13	8
Percent of total trip in Australia	78	67
Median nights in Australia	6	6
Total nights in Australia (million)	5.9	4.3

Note The difference between the mean and the median needs to be understood so that the way in which extreme values affect the mean can be appreciated. The mean or average is derived by dividing the total by the number of cases, while the median refers to the halfway point in a range of values represented.

Source BTR (1992a and 1992b).

One of the perceived reasons for Japanese tourists visiting Australia is its uniqueness. The abundant natural tourist resources, especially clean, beautiful beaches and coral reefs, appear to be the main attraction. In addition, Australian flora and fauna, such as native animals, koalas and kangaroos, together with a mild climate and the small time difference between the two countries, have been reported to be some of the major choice determinants.

TABLE 2.10

JAPANESE VISITS TO AUSTRALIAN CENTRES,
1990-1991*(per cent)*

<i>Region</i>	<i>1990</i>	<i>1991</i>
Sydney	82	80
Total NSW	82	80
Canberra/ACT	3	2
Melbourne	27	22
Total VIC	28	23
Brisbane	17	14
Gold Coast	44	na
Great Barrier Reef Region	38	na
Total QLD	66	70
Adelaide	4	3
Total SA	4	3
Perth	6	5
Total WA	6	5
Hobart	1	1
Total TAS	1	2
Darwin	.	1
Alice Springs	2	na
Total NT	4	4
Total	194	188

na not available

Note The sum of the region of stay visitors columns is the sum of the State percentages. This is a measure of the extent to which visitors visited more than one State. The sum of the state percentages for Japanese visitors in 1990 for instance is 194. This means that Japanese visitors on average visited 1.94 States.

Source BTR (1992a and 1992b).

Nevertheless, the relatively short duration of Japanese outbound travel trips (compared to trips from Western countries) results in a concentration of activities largely confined to city and resort centres on the east coast (see table 2.10). For example, 82 per cent of Japanese visitors stayed at Sydney at some stage of their trip, and 44 per cent visited the Gold Coast. On the other hand, it is estimated

that only 2 per cent of Japanese tourists visited Alice Springs and 18 per cent the Great Barrier Reef in 1990.

Thus, despite the uniqueness that is thought to attract Japanese tourists to Australia, the facilities that most Japanese tourists visit, namely, city and resort centres having a favourable maritime climate, are not necessarily unique to Australia compared to other competing destinations. Therefore, despite our perceived advantages, the demand for Australian holidays will be affected by the facilities offered by competing destinations.

One of the aims of the ATC's Market Development Study is to explain this apparent contradiction in what is thought to be main reason for Japanese choosing Australia as a holiday destination and what they do while they are on holiday.

Tourism expenditure

The Bureau of Tourism Research (BTR) estimated that about \$4.1 billion was spent by international visitors in Australia in 1990, excluding international air fares bought overseas. The Japanese contribution was around \$750 million, at an average of \$1550 per person. By 1991, the BTR estimate that total international visitor expenditure increased to about \$4.3 billion, with the Japanese contribution falling to just over \$700 million, at an average of \$1329 per person. This decline is related to the shorter average duration of visit by the Japanese in 1991.

Expenditure per Japanese tourist is somewhat higher in New Zealand, at approximately A\$1820 per person. The New Zealand Tourism Board, however, has estimated that the total expenditure by Japanese tourists for the year ending March 1990 was A\$180 million, while total tourist expenditure in that period was A\$1.2 billion.

Apart from New Zealanders, Japanese visitors to Australia spend less overall than any other overseas visitor (see table 2.11). This is accounted for by the Japanese spending less time in Australia than average (8 days compared with 30 days in 1991). However, each Japanese visitor spends more per night, \$166 compared with the average of \$61.

PROJECTIONS OF DEMAND

The impact of Japanese expenditure to the Australian economy is heavily skewed given the geographic location of their stay (see table 2.10), but is still quite significant. The Japanese contribute more than one-sixth of total tourism expenditure.

TABLE 2.11 EXPENDITURE BY INTERNATIONAL VISITORS IN AUSTRALIA, 1991

	<i>United States</i>	<i>Japan</i>	<i>Other Asia</i>	<i>Canada</i>	<i>New Zealand</i>	<i>UK and Ireland</i>	<i>Europe</i>	<i>Overall</i>
Total visitors	271 800	528 500	373 800	53 400	480 600	273 400	257 400	2 370 400
Average stay (nights)	27	8	35	48	21	60	48	30
Expenditure (\$A)								
Average per night	68	166	62	52	61	41	53	61
Average per visitor	1 836	1 329	2 196	2 501	1 281	2 431	2 529	1 819

Notes 1. All visitors aged 15 years and over.
 2. Figures may not add to totals due to rounding.

Source BTR, 1992b.

Japanese major economic indicators are projected by the Japanese Government to be strong over the period to 1994. Japan's gross domestic product (GDP) is expected to grow around 3.5 per cent per annum over this period (personal communication, Japanese Embassy).

While the Japanese labour market has tightened further, wage increases have remained modest (OECD, 1990). Real wages are forecast to increase by an average 3.2 per cent over the period to 1994.

The continuation of the forecast strong economic growth, along with increasing real wages over the next few years, can be expected to lead to greater expenditure on service related goods such as international air travel.

The Australian Tourism Commission (ATC) has set a target of 1.8 million Japanese visiting Australia per annum by the year 2000. This represents a growth rate of nearly 13 per cent per annum.

Projections made by the BTR in 1988 (see table 2.12) show a steady decline in the estimated annual rate of growth of Japanese tourists to Australia after 1988, with the rate of growth stabilising after 1992 at 7 per cent, a similar rate of growth to that of most other tourist sources (except New Zealand). By contrast, other areas were expected to drop dramatically after 1988 and gradually build up to 1992, with Asia (outside Japan) showing the strongest growth at 10 per cent after 1992.

TABLE 2.12 FORECAST ANNUAL GROWTH RATES OF SHORT TERM OVERSEAS ARRIVALS TO AUSTRALIA

(per cent)

	1988	1989	1990	1991	1992-2000
United States	5	0	7	7	7
United Kingdom	30	0	2	3	5
Europe (other)	30	5	4	6	7
Japan	65	30	20	10	7
Asia (other)	25	0	7	9	10
New Zealand	24	1	2	2	2
Total	26	6	7	6	7

Source BTR (1989).

If the BTR scenario is followed, it can be expected that the number of Japanese tourists to Australia will continue to grow at a rate of 7 per cent per annum for the next few years.

To meet these demand projections, the supply side capacity must expand as well. Supply issues are considered in the next chapter.

CHAPTER 3 THE SUPPLY OF AVIATION SERVICES BETWEEN AUSTRALIA AND JAPAN

This chapter examines the factors which have determined the supply of aviation services between Australia and Japan, including the methods the two governments have employed to increase capacity on the route and overcome the constraints of aviation infrastructure.

DETERMINANTS OF THE SUPPLY OF JAPAN-AUSTRALIA AVIATION SERVICES

Government framework

The international aviation industry is regulated by a series of interlocking bilateral air services agreements negotiated between governments. These agreements, which globally number in excess of 2 000, directly influence the access airlines have to routes, capacity and the tariffs they charge.

Although countries differ in their philosophical approach to the level of influence they consider desirable (Australia, for example, takes a very liberal attitude towards tariff regulation), they all seek to maximise the benefits to their economies and to their designated international carriers from the trade in rights.

Each agreement and its subsidiary arrangements represents an amalgam of the views of the two countries based on a number of factors, principal amongst these are:

- the underlying need for an agreement;
- the benefits that will accrue to each party;
- the value that each side places on the rights being traded and the rights offered in exchange;
- the relationship between the agreement on offer and those previously traded with other countries; and
- other considerations, such as foreign policy aspects.

The agreements set the parameters for air service operations between the two nations and the designated carriers are given the freedom to operate within these parameters. For example, agreements often determine the maximum capacity allowed on each

route. It is the prerogative of the carriers designated under the agreements to operate the level of capacity they believe to be commercially viable on a particular route, up to the maximum agreed between the Governments.

Following a review of international aviation policy concluded in June 1989, the Australian Government announced a change in the approach to negotiating air services agreements. It turned away from an emphasis on trading "like for like" benefits which had characterised negotiations before Australia became a major tourist and business destination in its own right and moved toward balancing the ability of Australian carriers to compete in the expanding international market and maximising Australia's ability to attract a larger share of the world's tourism and trade.

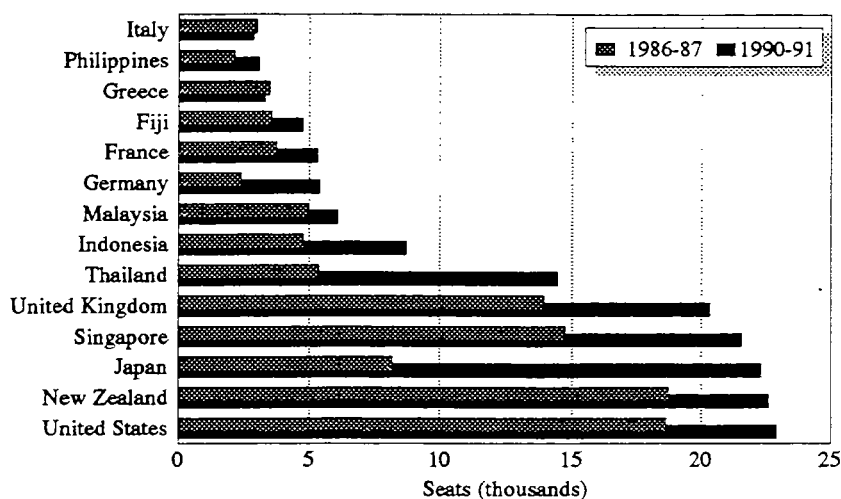
The Australian Government further liberalised its aviation policy in February 1992 when it announced the introduction of multiple designation of Australian carriers for international scheduled passenger services.

Japan's international aviation policy recognises the principle of fair and equal opportunity in aviation agreements, requiring agreement to be reached on reciprocal route and capacity entitlements and fare levels, at the same time seeking to ensure that the supply of air services adequately meets the level of demand. The Report of the Council for Transport Policy (1986), encouraged multiple designation on international air routes and the maintenance of the international competitiveness of the Japanese aviation industry as a whole, within the infrastructure constraints at Japanese international airports.

Figure 3.1 shows the capacity entitlements for some of the most important routes to Australia. The increasing importance of the Japan Australia route is shown by the 170 per cent increase in maximum seat capacity on the Japan route during the period 1986-87 to 1990-91, eclipsing growth on all other routes into and out of Australia. Japan now ranks third behind New Zealand and the United States in terms of maximum seat capacity per route.

The approach adopted by both the Australian and Japanese Governments has been to expand capacity and route entitlements to enable Australian and Japanese carriers to meet the rapidly expanding demand for air travel between the two countries.

The major airlines operating on the Japan-Australia route are Japan Air Lines(JAL), All Nippon Airways(ANA) and Qantas, with Qantas by far the major player. Other carriers participating in the market to varying extents are Air New Zealand, Continental Airlines, Malaysia Airlines, Singapore Airlines, Cathay Pacific and more recently Korean Airlines and Northwest Airlines.



Source DoTC.

Figure 3.1 Capacity of Australia's major air service agreements, 1986-1987 to 1990-1991

The carriage of traffic between Australia and Japan by third country airlines is influenced by a number of factors. The right to operate via an intermediate point to another country or beyond that country to a third country is often negotiated in air services agreements. These rights, commonly called "fifth freedom" rights are an important feature of air services negotiations and are typically traded for a reciprocal benefit. For example, Northwest Airlines operating on the Australia/Japan route is exercising fifth freedom rights traded separately by Australia and Japan with the United States. Other airlines, whose home country may be geographically between Japan and Australia also carry traffic between the two countries. Where this occurs outside an Agreement it is commonly called "sixth Freedom" traffic.

The proportion of traffic on the Australia-Japan route travelling through other countries has declined from 40.4 per cent in 1985 to 12.9 per cent by 1991. This has coincided with a very significant increase in the level of capacity operated by Australian and Japanese carriers.

Aviation infrastructure

Japan

Three out of every five Japanese outbound travellers depart from the Tokyo airport, Narita, with a further 20 per cent of the total outbound traffic departing from Osaka. (see table 3.1). In total, nearly 96 per cent of Japanese

TABLE 3.1 JAPANESE OUTBOUND TRAVELLERS BY POINT OF DEPARTURE, 1983-1990

('000s)

<i>Year</i>	<i>Narita</i>	<i>Haneda</i>	<i>Nagoya</i>	<i>Osaka</i>	<i>Fukuoka</i>	<i>Others</i>	<i>Total</i>
1983	2 422 (58.8)	122 (2.9)	134 (3.2)	1 149 (27.4)	222 (5.3)	100 (2.4)	4 149 (100)
1984	2 728 (59.1)	128 (2.8)	173 (3.8)	1 233 (26.7)	241 (5.2)	110 (2.4)	4 613 (100)
1985	2 921 (59.7)	137 (2.8)	210 (4.3)	1 273 (26.0)	247 (5.0)	108 (2.2)	4 896 (100)
1986	3 217 (59.0)	175 (3.2)	257 (4.7)	1 399 (25.7)	288 (5.3)	113 (2.1)	5 449 (100)
1987	4 073 (60.3)	216 (3.2)	354 (5.2)	1 635 (24.2)	348 (5.2)	127 (1.9)	6 753 (100)
1988	5 159 (62.3)	220 (2.6)	518 (6.2)	1 842 (22.1)	413 (5.0)	150 (1.8)	8 338 (100)
1989	6 034 (63.1)	241 (2.5)	672 (7.0)	1 972 (20.6)	475 (5.0)	176 (1.8)	9 570 (100)
1990	6 917 (62.9)	235 (2.1)	832 (7.5)	2 086 (19.0)	569 (5.2)	252 (2.9)	10 997 (100)

Note Percentages in brackets
Source Travel Journal International, 1992.

outbound traffic leaves through four airports (Narita, Osaka, Nagoya and Fukuoka). This highly concentrated market has led to significant congestion problems at these airports.

Under the present bilateral arrangements with Japan, Australia's designated carriers can operate to any six of either Tokyo (Narita), Osaka, Nagoya, Fukuoka, Nagasaki, Kagoshima, Naha or one other point in Japan to be nominated. Australian carriers have not been able to take up rights at Osaka because of congestion at the airport. However, access to Osaka will be available when the new Kansai airport opens in 1994. Narita is now similarly constrained, with no new slots available.

Australia is now faced with a growing list of Japanese airports that are either not available or are constrained in some fashion. Capacity to these airports may only be expanded through the substitution of larger for smaller aircraft or the conversion of joint to sole services. These constraints may ultimately have implications for the long term growth of Japanese tourism to Australia.

Capacity at Osaka reached its limit of 370 movements a day in 1976. No new operators have been granted slots since then. International services comprise only 15 per cent of daily aircraft movements and include flights by United Airlines, Northwest, American Airlines, British Airways, Lufthansa and Singapore Airlines. No additional access to Osaka will be available until the new offshore airport, Kansai is completed. Kansai will be operational in 1994-5 and the Japanese have undertaken that Australian carriers will be treated no less favourably than other airlines in the allocation of slots at the new airport.

Nagoya and Fukuoka are two cities that are emerging as important Japanese gateways. Fukuoka now has non-stop flights to 12 foreign cities. Nagoya, Japan's fourth largest city is located between Osaka and Tokyo and is likely to become one of the principal airports in Japan. It can be used as an alternative to both Osaka and Tokyo. However, in June 1991, the Japanese authorities advised that Nagoya and Fukuoka were also facing physical and environmental constraints and that slot restrictions would apply.

Not all airports in Japan are operating at full capacity. The Japanese Government has implemented a country wide program to upgrade regional airports to serve as hubs for domestic services and to take pressure off the severely congested major international gateways. Fourteen regional airports including Chitose (Sapporo), Okayama and Sendai are being expanded. Regional centres are keen to take advantage of the opportunities presented by the diversification of major aviation facilities. However, as they represent less than 4 per cent of the total outbound traffic, the growth at these centres has been relatively slow.

Australia

Australia does not have similar airport congestion problems to those of Japan. Only one airport in Australia is facing the possibility of congestion and that is Kingsford Smith Airport in Sydney.

The Federal Airports Corporation predicted last year that international and domestic aircraft movements at Sydney airport will increase from 112 000 in 1990 to 129 000 in 1992. As a result of increasing congestion at Sydney airport, steps have been taken to increase the capacity through the adoption of a range of traffic management measures. These include peak period pricing, traffic priority schemes, airline schedule coordination, simultaneous runway operations and the provision of rapid exit laneways. As a longer term solution, a third runway is scheduled to be completed in 1995, and the staged development of Badgerys Creek will commence shortly. In the meantime, work is under way to improve and extend Sydney's international airport terminal at a cost of approximately \$260 million.

Given the third runway, the terminal projects and traffic management measures already adopted at Sydney airport, there appears to be no real constraint in Australia on increasing the supply of aviation services.

CHARACTERISTICS OF AUSTRALIA-JAPAN AVIATION SERVICES

Over 90 per cent of the Japan-Australia traffic originates in Japan and movement on the route is dominated by origin/destination (OD) traffic. The Japan-Australia route is very significant to Qantas which alone has about 54 per cent of the market; JAL has about a 33 per cent share (See table 3.2). Since 1986, ANA has developed its market share to about 12 per cent.

Japan's move to multiple designation initially saw a roughly even fall in the market share of Qantas and JAL, between 1988 and 1990. This meant that ANA's and therefore Japan's rise in market share post multiple designation was at the expense of Qantas. In 1991, however, Qantas regained the uplift/discharge market share lost since 1988.

In 1990, of the 1.1 million air traffic journeys between Japan and Australia, nearly 88 per cent involved direct flights between the two countries (see table 3.3). The percentage of direct flights fell to just under 80 per cent in 1991, which is a decrease of three percentage points since 1988.

TABLE 3.2 AIRLINE MARKET SHARE OF
UPLIFT/DISCHARGE TRAFFIC FOR THE JAPAN-
AUSTRALIA ROUTE, 1988-1991

(passengers each way by year)

<i>Airline</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Qantas	338 244 (53.9)	337 621 (51.2)	459 432 (49.5)	533 369 (53.8)
JAL	235 312 (37.8)	225 229 (34.2)	340 910 (36.8)	327 439 (33.0)
ANA	56 580 (9.0)	96 276 (14.6)	127 062 (13.7)	122 120 (12.3)
Northwest	<i>na</i>	<i>na</i>	<i>na</i>	9 189 (0.9)
Total	630 136	659 126	927 404	922 117

na Not applicable.

Note Figures in brackets are percentages

Source DoTC.

An estimate of the number of outbound seats available from Japan each week for various countries shows that, while Japan is the largest source of inbound tourists for Australia, Australia's share of the Japanese outbound market is small compared with America and Asia (see table 3.4). This has implications for the future allocation of slots at Japanese airports as the Japanese will need to make effective market related decisions when allocating scarce resources. It is possible that the Japanese will choose to provide for their major markets before Australia is given the opportunity to increase its presence in the Japanese market.

The historical series of capacity and passengers carried are shown in figures 3.2 to 3.4. In terms of passengers, JAL was the major carrier in the early 80s with 62 per cent of inbound passengers in 1981. By 1986, Qantas and JAL were carrying the same number of passengers. Figure 3.3 shows the growth in the seat capacity on the route between 1981 and 1991. The growth in seats has mirrored the growth in passenger numbers. The graphs shows how the airlines have been committed to growth on the route, especially Qantas.

TABLE 3.3 MARKET SHARE OF ORIGIN/DESTINATION TRAFFIC
FOR JAPAN AND AUSTRALIA, 1988-1991

<i>(passengers each way by year)</i>				
<i>Services</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Direct	630 136 (82.1)	659 126 (83.9)	927 404 (87.8)	922 117 (79.9)
Indirect	137 514 (17.9)	126 949 (16.1)	129 136 (12.2)	231 693 (20.1)
Total	767 650	786 075	1 056 540	1 153 810

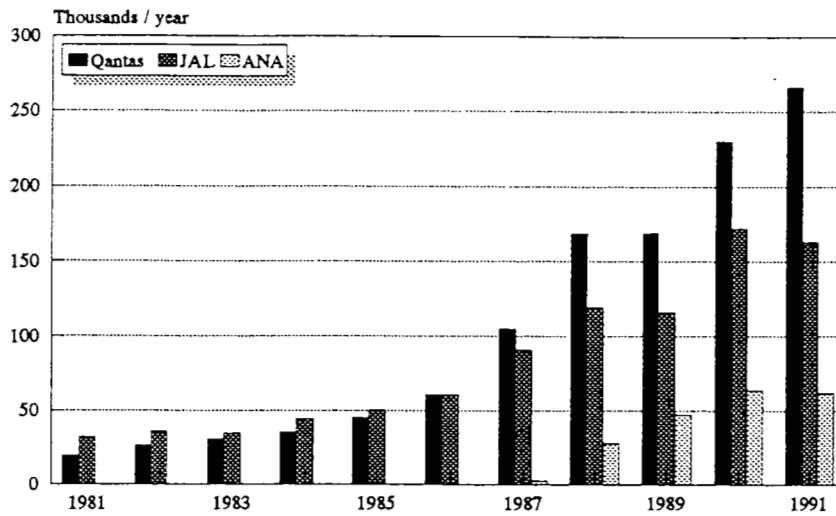
Note Figures in brackets are percentages.
Source DoTC

TABLE 3.4 ESTIMATED SEAT CAPACITY PER WEEK FOR JAPAN
ROUTES, BY REGION, 1991

<i>(weekly ex-Japan air seats)</i>		
<i>Designation</i>	<i>Seats per week</i>	<i>Per cent</i>
North and South America	129 163	28.6
Europe	41 076	9.1
Asia, Africa and Middle East	262 977	58.2
Oceania (including Australia)	18 687	4.1

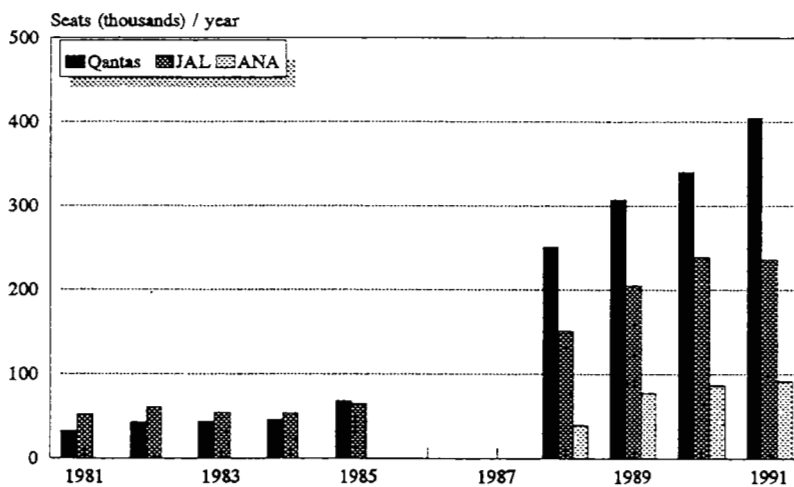
Source Travel Journal International, 1992.

Figure 3.4 shows the monthly passenger and seat capacity statistics for the last four years. The graph clearly demonstrates a decline in visitor numbers in the first six months of 1989, well before the pilots' dispute.



Source DoTC.

Figure 3.2 Total travellers to Australia from Japan by airline, 1981-1991



Source DoTC.

Figure 3.3 Airline capacity on the Japan-Australia route, 1981-1991

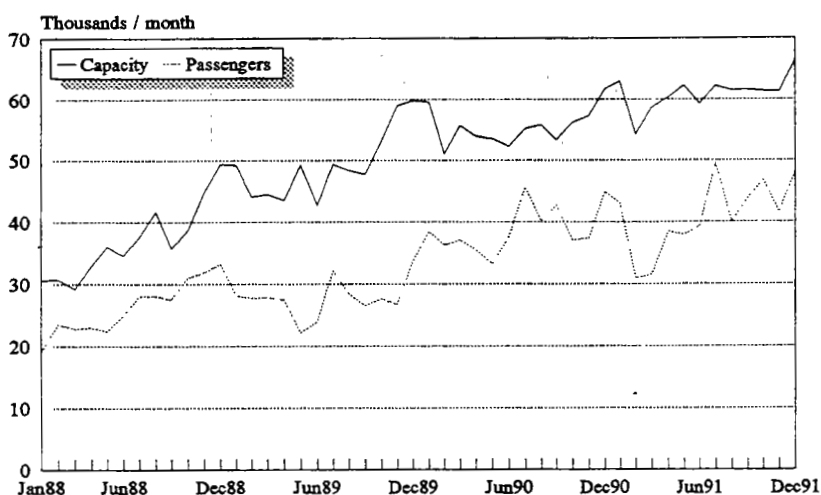
Between April and October 1991, approximately 13 900 seats per week on 42 direct services were scheduled on the Australia-Japan route as follows:

- JAL with ten services providing about 3300 seats per week
- ANA with five services providing about 1700 seats per week

Qantas and JAL with 8 joint services providing about 2500 seats per week

Qantas with 19 services providing about 6400 seats per week.

Qantas scheduled 19 services a week from Japan with 12 services from Tokyo and seven services from Nagoya using B747 and B767 aircraft. JAL and ANA had ten and five services a week respectively, all originating at Tokyo. A combination of DC10 and B747 aircraft were used on these flights.



Source DoTC.

**Figure 3.4 Inbound passengers and seat capacity,
January 1988 to December 1991**

Services between Japan and Australia are provided on every day of the week. The number of services and the routes taken on each day of the week are provided in table 3.5. More services are operated on Monday, reflecting the importance of the honeymoon market and the tendency to commence holidays on a Monday. These trends are reflected in prices, with holiday package discounts being offered for departures later in the week.

Most Japanese visitors to Australia depart from Narita airport. In 1991, the Mainichi Shimbun survey estimated that 75 per cent of travellers to Australia departed from Narita, and a further 6 per cent from Osaka. These figures are quite different to the overall outbound travel statistics since there are only Northwest's direct flights between Osaka and Australia. Therefore, many travellers will utilise Narita airport and Nagoya.

Table 3.6 shows that the city of arrival and departure for Japanese visitors varied somewhat compared to all international arrivals to Australia (BTR 1992b). In 1990, approximately 50 per cent of Japanese visitors to Australia arrived through the

TABLE 3.5 JAPAN/AUSTRALIA AIR SERVICES, BY DAY, CARRIER, APRIL-OCTOBER 1991.

<i>Carrier</i>	<i>Monday</i>	<i>Tuesday</i>	<i>Wednesday</i>	<i>Thursday</i>	<i>Friday</i>	<i>Saturday</i>	<i>Sunday</i>
Qantas	Ty/Syd Ty/Per ^a Ty/Bne Ty/Adl/Mel ^a Fk/Bne/Syd ^a Ng/Bne/Syd Ty/Cns ^a	Ty/Syd Ng/Syd Ty/Cns/Bne	Ty/Syd/Mel Ty/Per ^a Ng/Cns Ty/Cns/Bne	Ty/Syd Ng/Bne Ty/Cns/Bne ^a	Ty/Syd/Mel Fk/Bne/Syd ^a Ng/Syd Ty/Cns/Bne	Ty/Syd Ng/Cns/Syd Ty/Cns/Bne ^a	Ty/Syd Ng/Bne/Syd Ty/Cns/Bne
JAL	Ty/Bne Ty/Syd	Ty/Syd	Ty/Syd	Ty/Syd	Ty/Syd	Ty/Bne Ty/Syd	Ty/Bne Ty/Syd
ANA	Ty/Syd		Ty/Syd	Ty/Syd	Ty/Syd		Ty/Syd
Total	10	4	6	5	6	5	6

Legend

Ty : Tokyo	Adl : Adelaide	Mel : Melbourne
Fk : Fukuoka	Bne : Brisbane	Per : Perth
Ng : Nagoya	Cns : Cairns	Syd : Sydney

a. Joint flights with JAL.

Source DoTC.

Sydney gateway. The other gateways utilised included Brisbane, Cairns, Melbourne, and Perth with 32, 7, 6 and 4 per cent respectively. In comparison with the average international visitor figures, more Japanese entered Australia through Brisbane.

On departing Australia, over 60 per cent of Japanese left via Sydney. The large difference between arrivals and departures from Sydney resulted from Brisbane arrivals departing from Sydney and Cairns.

TABLE 3.6 AUSTRALIAN CITY OF ARRIVAL AND DEPARTURE, 1990

<i>(per cent)</i>				
<i>City of arrival</i>	<i>Arrival</i>		<i>Departure</i>	
	<i>Japanese visitors</i>	<i>Total visitors</i>	<i>Japanese visitors</i>	<i>Total visitors</i>
Sydney	50	49	60	52
Melbourne	6	15	7	15
Brisbane	32	18	18	14
Perth	4	10	4	9
Cairns	7	5	10	6
Adelaide	1	2	1	2
Townsville	-	-	-	-
Darwin	-	1	-	1

Notes 1. All visitors aged 15 and over.
2. (-) Less than one per cent.

Source BTR, 1992b.

CHAPTER 4 MARKET CONSTRAINTS AND FUTURE PROSPECTS

Travel industry sources would like to see the demand for Japanese travel to Australia grow from 530 000 in 1991 to around 1.8 million in 2000 (Australian Tourist Commission, 1992). The market, however, possesses features which may impede its growth and, subsequently, affect the contribution made by Japanese visitors to the Australian economy.

First, as discussed in Chapter 2, the Japanese market consists of a number of quite separate segments with different needs and price elasticities. To attract Japanese visitors to Australia in the numbers mentioned above, do the airlines and the tourism industry need to cater more explicitly for these differences?

Second, have tour consolidators and airlines operating on the route had the ability to wield some market power? And have the tour consolidators and the airlines taken advantage of this market power to charge a premium to the consumers on this route in comparison with other routes?

Third, do physical congestion problems, mainly associated with airport infrastructure in Japan, currently limit market expansion opportunities?

These are some of the major issues which impact on the demand for, and supply of, services on the Japan-Australia aviation route. This chapter discusses these issues and outlines some of the options to improve route performance. It should be noted that there are other factors which affect demand on this route. For example, the adequacy of accommodation infrastructure in Australia is clearly important to the future prospects for Japanese tourism in Australia. Such an issue, however, is not limited to the Australia-Japan route, and as such it is not examined in detail.

MARKET SEGMENTS

Econometric research studies point to the Japanese market being highly responsive to income changes but having a low response to price changes. Crouch (1991) found the income elasticities for the Japanese varied between +3.9 to +8.1 for a range of functions examined. The air fare elasticities for Japanese outbound travellers were negative as expected, but statistically insignificant. Other econometric studies support these results. Thus, econometric analysis implies that the Japanese are relatively price insensitive, but as their income increases, have a higher propensity to travel overseas.

As discussed in Chapter 2, there is evidence to suggest that the structure of Japanese outbound travel is changing. Some sections of the industry cling to a view that

Australia offers a high quality product, given our natural endowments, which will sustain continued market growth without the need to rely on aggressive pricing and marketing campaigns.

It has been argued both by the Centre for International Economics (1988) and by Qantas in their submissions to the IAC (IAC 1989), that Australia is a niche market with unique characteristics that appeal to high yield travellers, notably the Japanese. Those organisations also argued that Australia can maximise its return by exploring its niche characteristics to sustain a premium in the market place. As highlighted in Chapter 2, however, the Japanese holiday itinerary does not support this argument.

The market is now considered to be in transition from an emerging market to one exhibiting increased signs of maturity, a market where the occurrence of repeat travellers is high. Despite substantial growth in the total Japanese number, there has been significant growth in the proportion of repeat travellers to Australia over the last three years. Currently one in five Japanese travellers has visited Australia before (BTR, 1992a).

It is generally assumed that the repeat traveller focuses primarily on not whether to travel, but rather to what destination. Because of this, in recent years there have been some arguments which support the claim that Japanese tourists are becoming more sensitive to price. This claim is based on the assumption that the repeat traveller can be expected to trade quality differentials for lower prices.

In addition, the growing proportion of student travellers from Japan (also usually price sensitive and time insensitive) supports this hypothesis and means that the average Japanese traveller may now be more responsive to price than before. If this is the case, different strategies may need to be adopted if Australia is to maximise the returns available from successfully expanding market share.

With an increase in price sensitive and time insensitive travellers, fifth and sixth freedom carriers could be expected to increase their market share. Table 4.1 shows the changes in the uplift/discharge¹ and origin/destination² traffic between 1985 and 1991. The table shows that in 1985, 84 per cent of travellers on the Australia-Japan route had their origin or destination in Japan. The other passengers had their origin/destinations further afield. By 1991, the proportion of traffic originating in, or destined for, Japan had increased to 96 per cent.

In 1985, only 60 per cent of origin/destination traffic was carried on direct services with Japan (see table 4.2). Traffic via New Zealand and Singapore each accounted for a further 13 percent. By 1991, these percentages had changed to 87, 4 and 3 per cent respectively. The reasons for the increased market share of the direct carriers

1. Passengers who board in Australia and disembark in Japan, or vice versa, ignoring the true origin and destination of the passenger.

2. Passengers whose initial departure is in Japan, and final destination is Australia, or vice versa.

TABLE 4.1 **ORIGIN AND DESTINATION FOR PASSENGERS TRAVELLING ON JAPAN-AUSTRALIA SERVICES**
(UPLIFT/DISCHARGE TRAFFIC), 1985-1991

<i>(passengers each way by year)</i>							
<i>Origin/Destination</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Japan	167 610 (84.3)	220 412 (88.0)	339 614 (86.8)	590 515 (91.2)	623 491 (91.1)	912 623 (94.1)	1 005 228 (95.8)
United Kingdom	9 813 (4.9)	8 035 (3.2)	16 527 (4.2)	15 066 (2.3)	14 281 (2.1)	14 465 (1.5)	9 412 (0.9)
Korea	2 238 (1.1)	3 359 (1.3)	4 918 (1.3)	9 397 (1.5)	12 759 (1.9)	10 313 (1.1)	8 563 (0.8)
United States	4 908 (2.5)	5 582 (2.2)	5 913 (1.5)	7 766 (1.2)	7 405 (1.1)	6 455 (0.7)	6 681 (0.6)
Other	14 164 (7.1)	13 051 (5.2)	24 226 (6.2)	24 834 (3.8)	26 822 (3.9)	26 146 (2.7)	13 121 (1.3)
Total	198 733	250 439	391 198	647 579	684 758	970 002	1 048 984

Note Figures in brackets are percentages.

Source ABS (1992).

TABLE 4.2 UPLIFT/DISCHARGE FOR JAPAN-AUSTRALIA ORIGIN/DESTINATION TRAFFIC,
1985-1991

(passengers each way by year)

<i>Uplift/Discharge</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Japan	167 610 (59.6)	220 412 (63.9)	339 614 (70.5)	590 515 (76.9)	623 491 (79.3)	912 623 (86.4)	1 005 228 (87.1)
Hong Kong	25 446 (9.1)	28 618 (8.3)	28 764 (6.0)	31 578 (4.1)	22 867 (2.9)	12 902 (1.2)	11 232 (1.0)
Singapore	38 021 (13.5)	38 951 (11.3)	43 333 (9.0)	51 247 (6.7)	42 286 (5.4)	38 208 (3.6)	38 273 (3.3)
New Zealand	36 962 (13.2)	41 889 (12.1)	51 595 (10.7)	67 704 (8.8)	60 308 (7.7)	52 510 (5.0)	49 993 (4.3)
Other	12 998 (4.6)	15 080 (4.4)	18 752 (3.9)	26 606 (3.5)	37 123 (4.7)	40 292 (3.8)	49 084 (4.3)
Total	281 037	344 950	482 058	767 650	786 075	1 056 535	1 153 810

Note Figures in brackets are percentages.

Source ABS (1992).

include the possibility of significant price differentials between direct and indirect services, or an appreciation of service quality by travellers.

There is no evidence to suggest that there has been a significant price differential between direct and indirect services from Japan. On the other hand, service quality by the direct carriers (particularly Qantas) has improved markedly since 1985. In 1986, 1987 and 1989, direct services commenced into Perth, Nagoya and Fukuoka respectively. These direct services have eroded the market share of sixth freedom carriers such as Singapore Airlines and Cathay Pacific. Direct services to New Zealand from Japan have removed the need for many Japanese wishing to visit New Zealand having to travel via Australia.

It would appear from these statistics that the Japanese tourists coming to Australia are time sensitive and are utilising the direct services in ever increasing numbers in order to maximise their time at their preferred destination.

This change in the market segmentation also has implications for the operational characteristics of the route. Previously, airlines had targeted Monday with the most outbound flights, catering for the lucrative honeymoon market. However, given the current airport constraints, airlines may find it very difficult to reorganise their operations.

POTENTIAL FOR GROWTH

It appears that many Japanese regard Australia as an attractive holiday destination. The Nippon Research polls conducted annually for the Australian Embassy indicated that, since 1986, the Japanese have viewed Australia as their preferred holiday destination. In 1988, 40 per cent of Japanese ranked Australia as the country they most wanted to visit, or visit again, ahead of the United States (including Hawaii), traditionally Japan's most popular tourist destination.

Significantly, among those wishing to revisit a foreign country, Australia was clearly number one, with 65 per cent of people who had been to Australia wishing to visit again. This favourable perception of Australia as a prime holiday destination helps to explain the increase in Japanese travel to Australia (Garnaut 1989).

Support for these statistics can be found in the Mainichi Shimbun survey, an annual survey of Japanese travellers. In 1991, more than 40 per cent of respondents listed Australia as a country they wanted to visit (Mainichi Shimbun, 1991).

The significance to Australia of the honeymoon segment, however, is frequently overstated. For example, the study by the Centre for International Economics (1988) notes that 'there are reports of Australia having 26 per cent of the Japanese honeymoon market'. The Japanese overseas honeymoon market is estimated to generate 0.8 million trips annually (or about 8 per cent of the total), of which Australia attracts around 20 per cent of the market, second to Hawaii with 31 per cent

(Mainichi Shimbun, 1991). Although the Japan Travel Bureau (JTB) found Australia to be the most preferred destination among Japanese newlyweds who took overseas honeymoon trips in the last quarter of 1990, it should be pointed out that if honeymooners arrived in the numbers indicated by some market surveys there would be around 230 000 additional visitors per annum to Australia.

It seems that many Japanese want to travel overseas. In the Australian Tourist Commissions (ATC) Market Development Study, 1992, it was estimated that the potential demand for long haul (that is a flight lasting four or more hours to reach its destination) was about 22 million, over twice the current number of people travelling overseas each year.

Assuming that these survey results can be relied on, can Australia attract more Japanese visitors than they currently do? Are there price and/or structural problems in one or more of the areas discussed below that may be inhibiting growth?

TOURIST SUPPORT INDUSTRIES

An important influence on the numbers of Japanese tourists coming to Australia is the amount of tourist support services within Australia. The support services consist of tourist infrastructure and the hospitality industries as a whole. These include hotels, restaurants, shopping facilities, and tourist attractions. These industries play a significant role in expanding the tourist market. If facilities offered by the industries are inadequate, this will clearly have a detrimental effect on tourism levels in Australia.

For the Japanese, shopping facilities are an important consideration in the choice of a holiday destination. Tradition requires that travellers, on their return home, give a small token or souvenir, 'omiyage', from the country they visited to friends and relatives. This tradition is particularly important in the case of honeymoon couples, who are expected to bring presents to the majority of those who wished them well at their wedding. However, while recognising the importance of the omiyage tradition, other factors, such as the price differential between Japan and Australia, and the availability, range and type of merchandise offered, are also important.

Surveys by the Japan Travel Bureau show that almost half of Japanese respondents value the availability of good shopping facilities. From the Mainichi Shimbun survey it can be seen that Australia is not considered to be a good shopping destination, being rated eighteenth.

It follows that Australia needs to be competitive and equipped to provide not only good shopping facilities, but also other first class tourist support services in order to attract more Japanese visitors.

PRICE AND VALUE OF PACKAGES FOR JAPANESE TOURISTS TO AUSTRALIA AND COMPETING DESTINATIONS

The dynamic nature of the international travel market and the high level of growth in outbound Japanese travel may shade the real impact of price and marketing campaigns in the selection of holiday destinations. The Industries Assistance Commission (1989) Report on Travel and Tourism found 'strong theoretical reasons for believing that they (econometric studies) underestimate the responsiveness of tourism demand to price -at least at the aggregate level - and overestimate the responsiveness to income'. This view may be applicable to Japanese tourism to Australia.

Studies indicate that some 70 per cent of Japanese outbound tourists travel on group fares known as group inclusive tour fares (GIT). GIT fares are offered at wholesale level by the airlines to tour operators for inclusion into package holidays.

In general, tour packages fall into two categories:

- high quality, high price fully inclusive packages, with preferred departure days (usually Saturday, Sunday and Monday). These packages appeal mainly to honeymooners who purchase 80 per cent of the product; and
- medium priced tour packages structured more for the budget conscious traveller (for example, office ladies and students). Itineraries are the same as for the higher priced packages but no five star hotels are included and departure times are not as attractive.

Holiday package prices fluctuate according to season, which is a major determinant of demand. April to September is the northern hemisphere peak demand season, with October to March being the Australian peak demand season. Prices are much higher during peak season due to a combination of higher air fares paid by wholesalers and higher land prices. Short haul destinations such as Guam, Korea and Taiwan are not examined as they are invariably lower priced and to some extent, offer a 'different' product to those of a western country.

Table 4.3 provides details of top priced package tours ex Japan for 1989-90. A ten day package tour to Australia/New Zealand (Package number Two) during April to September 1990 (Australian off-peak season) is similar in price to a ten day peak season European holiday (Package No. Four). The commencing price is virtually identical in both packages, with the upper limit for the European holiday some Yen 60 000 higher than the Australian holiday.

An eight day package tour (off-peak) season to the Gold Coast, Sydney and Melbourne (Package No. One), one of the most popular packages sold, has a commencing price some Yen 32 000 higher and an upper limit some Yen 37 000 than an nine day package (peak season) to the United States West Coast/Hawaii (Package No. Six).

TABLE 4.3 PACKAGE PRICES TO COMPETING DESTINATIONS EX-JAPAN (TOP PRICE TOURS)

('000 yen)

	October 1989- March 1990	April 1990- September 1990
1. Koala, Penguin, Gold Coast - 8 days	395-535	425-546
2. Australia/New Zealand - 10 days	562-659	562-664
3. Europe Highlight - 8 days	Details not available	520-680
4. Europe Highlight - 10 days	Details not available	561-720
5. Grand Canyon/West Coast Highlight - 7 days	278-406	289-421
6. Grand Canyon/West Coast/Hawaii - 9 days	368-423	393-509
7. Hawaii-Waikiki - 6 days	254-322	275-373

Source Qantas (1990).

A direct comparison of Australian and European holidays during the October-March 1989-90 period is not available. A comparison of holidays during this period in 1988-89 shows that the peak season ten day holiday to Australia/New Zealand has a commencing cost some Yen 206 000 (50 per cent) higher than a similar length European holiday, with the top end cost some Yen 108 000 higher (19 per cent). Similarly during October 1989 and March 1990 a United States West Coast/Hawaii nine day holiday was available at a discount to the eight day Australian package, of between Yen 27 000 - 112 000.

Table 4.4 provides details of medium price package tours, ex Japan for 1989-90, and shows that an (off-peak) ten day package to Australia/New Zealand during April-September 1990 (Package No. Two) is some Yen 75 000 - 110 000 cheaper than a similar length (peak season) European holiday (Package No. Four). The same Australian holiday during October-March 1990 can be some Yen 129 000 (40 per cent) higher than a similar length (off-peak) European package tour.

TABLE 4.4 PACKAGE PRICES TO COMPETING DESTINATIONS
EX-JAPAN (MEDIUM PRICE TOURS)

('000 yen)		
	October 1989- March 1990	April 1990- September 1990
1. Koala, Penguin, Gold Coast - 8 days	383-460	289-381
2. Australia/New Zealand - 10 days	457-478	413-458
3. Europe Highlight - 8 days	na	368-388
4. Europe Highlight - 10 days	328-452	488-568
5. Grand Canyon/West Coast ^a - 8 days	183-300	239-352
6. Grand Canyon/West Coast/Hawaii ^b - 9 days	226-307	243-353
7. Hawaii-Waikiki Deluxe - 6 days	153-235	203-302
8. Hawaii-Waikiki Standard - 6 days	110-192	108-175

a. Unlike April/September 1990 package Las Vegas is not included in October/March programme.

b. Unlike April/September 1990 package, the October/March tour has two nights instead of three nights in Honolulu and one in Los Angeles.

na Not available.

Source Qantas (1990).

An analysis of mono destination holidays is presented in table 4.5. This shows that commencing prices for a five or six day holiday to Cairns, compared with same length holidays to Hawaii, favour Hawaii by some Yen 27 000 - 30 000 (26 per cent). Top end prices are comparable for either destination.

TABLE 4.5

PACKAGE PRICES TO COMPETING DESTINATIONS
EX-JAPAN (MONO-DESTINATION TOURS)

('000 yen)

<i>Price</i>	<i>Destination</i>	<i>Length</i>	<i>Package</i>
130-171	Cairns	5 days	Four Seasons Hotel; Airport pick-up and escort; Meals extra; free time
103-186	Hawaii	5 days	Hotel - Ashton Island Colony Outrigger Maria; Airport pick-up and escort; Meals extra; free time
138-178	Cairns	6 days	Four Seasons Hotel Airport pick-up and escort; meals extra; free time; Optional reef tours available
108-175	Hawaii	6 days	Hotel - Ashton Island Colony Outrigger Maria; Airport pick-up and escort; Meals extra; free time
218-258	Cairns	7 days	2 nights Dunk Island; 2 nights Cairns; Quality Inn; Airport pick-up and escort; Meals extra
175-198	London/ Paris	8 days	Details unavailable

Source Qantas (1990).

The eight day Australian tour during April-September 1990 (Package No. One) to the Gold Coast/Sydney/Melbourne has a commencing cost some Yen 46 000 higher than the day longer United States West Coast/Hawaii tour (Package No. Six). It is interesting to note that the difference in cost between a peak season Australian holiday (Package No. One) and an off-peak season United States holiday (Package No. Six) can be between Yen 157 000 - 253 000 (69 per cent - 122 per cent).

When Hawaii's Japanese culture and service orientation, hotel infrastructure and ease of access are considered, Cairns' ability to compete would need to be based on some sort of tour discount or product differentiation.

From the above comparisons, it would appear that Australia is a relatively high priced market for Japanese tourists on package tours. It should, of course, be noted that package tour prices consist of a number of components, including land (mainly

accommodation), air and the tour consolidator margins. Any one of these components may be a contributor to the higher prices of the Australian packages.

Japanese tour consolidators

Tour consolidators develop not only the travel product, but also market and manage all aspects of its delivery as a means of ensuring that they can provide their clients with a high quality product. As the Australian market has grown, the consolidators have established extensive administrative support structures at the primary destinations in Australia to fully service their clients' needs.

From the perspective of the international airlines, the function of the tour consolidators is to smooth out the peaks of demand and provide an appropriate distribution of clients throughout the year. The major tour consolidators are viewed as important players within the Japanese outbound travel market by the international airlines servicing Japan, given their role in sourcing clients and servicing their needs during the tour. Qantas has emphasised close commercial relationships with these consolidators since the mid-1980s, which has contributed to Australia being promoted as a prime tourist destination.

The significance of examining the structure of the Japanese travel industry in this study is to determine if the level of concentration within the industry could have adverse effects on sourcing clients to Australia.

In 1989, the top four Japanese tour consolidators accounted for 64 per cent of the total Japanese travel market, that is both domestic and international (see table 4.6). In terms of Japanese outbound tourism, the top four firms accounted for 56 per cent while the top eight firms controlled 74 per cent of the market. By 1990, these figures had barely changed, with the top four firms accounting for just over 62 per cent of the total market and 52 per cent of the outbound travel market.

The level of competition between Japanese tour consolidators does not suggest that there are restrictive barriers in terms of Australia sourcing Japanese visitors, since a large number of tour consolidators participate in the market. While JTB clearly has the largest single share of the travel market, it does not lack competition within any market segment. It has been suggested, however, that there is tacit collusion between these consolidators, and that they do not attempt to 'steal' market share from another firm.

A generally accepted economic measure of market concentration is the Herfindahl-Hirschman Index (HHI). The HHI is determined by summing the squares of the market shares of the firms in the market. For example, a monopolist would measure 10 000 on the HHI (that is, 100^2).

The examination of concentration levels using HHI represents only one dimension of competition. Other dimensions include, for example, the capacity of small

TABLE 4.6 SHARE OF JAPANESE TRAVEL MARKETS^a HELD BY THE TOP EIGHT TOUR CONSOLIDATORS
1989-1990

<i>Tour Consolidator</i>	<i>Overseas</i>		<i>Domestic</i>		<i>Total</i>	
	<i>1989</i>	<i>1990</i>	<i>1989</i>	<i>1990</i>	<i>1989</i>	<i>1990</i>
Japan Travel Bureau	24.9	23.5	34.1	34.4	30.3	29.3
Kinki Nippon Tourist	13.3	12.6	16.3	16.3	15.1	14.7
Nippon Travel Agency	9.2	8.7	13.9	13.4	12.0	11.5
Tokyu Tourist	5.4	5.3	7.5	7.1	6.7	6.3
Nippon Express	8.3	7.1	2.9	3.0	5.1	4.8
Nokyo Tourist Corp. ^b	2.8	1.7	4.3	3.9	3.7	3.0
Meitetsu Travel Service	1.9	1.9	4.1	4.1	3.2	3.2
Hankyu Express Int'l	4.6	4.5	2.4	2.5	3.3	3.4

a. Calculated as percentage of market held by top 35 firms.

b. Formerly CO-OP Travel Services

Source Travel Journal International (1992).

consolidators to increase output, entry conditions and the actual conduct of tour consolidators within the industry. Resource and data constraints limit the coverage that could be given to the Japanese tour consolidators, and consequently emphasis has been placed on threshold concentration levels as providing an indicator for the level of competition within the industry.

The HHI has been calculated in table 4.7 for the Japanese tour consolidators outbound, domestic and total market shares. On the basis of the top four firms comparison using the HHI scores applied by the United States Justice Department in their consideration of merger application for market dominance test, the following was evident for the Japanese tour consolidators' market position in 1989 and 1990:

- only the domestic market is close to being highly concentrated (scores above 1800);
- the total market scores for the top four and eight firms point to it being reasonably concentrated (scores between 1000 and 1800) for which a degree of market power is likely to be present; and
- in 1990 the outbound market scores were below the benchmark figure of 1000, which is considered the cut-off point for an unconcentrated market.

TABLE 4.7 HERFINDAHL-HIRSCHMAN MARKET CONCENTRATION INDEX FOR JAPANESE TRAVEL MARKETS^a, 1989-1990.

<i>Market</i>	<i>Top four firms</i>		<i>Top eight firms</i>	
	<i>1989</i>	<i>1990</i>	<i>1989</i>	<i>1990</i>
Outbound	950	837	1 041	921
Domestic	1 678	1 679	1 727	1 726
Total	1 335	1 246	1 396	1 300

a. Calculated for the markets held by top 35 tour consolidators.

Source BTCE estimates from Travel Journal International (1991).

On the basis of the above analysis, the outbound market is unlikely to be concentrated, and there is no evidence that participants exhibit a high degree of

market power. The Japanese outbound consolidators, while very important in providing clients to the airlines, appear to operate in a competitive market and are responsive to consumer demands. This places them more in the realm of price takers than price makers.

Although it would appear that, in theory, the tour consolidators operate in a competitive environment, industry sources suggest that, in practice, the consolidators have significant power within the market. Apart from the tacit collusion that may exist between operators, it has also been suggested that these wholesalers have the power to influence traffic to a particular destination.

It is felt by some industry members that tour consolidators have the ability to create a constraint on the airlines' load factors. If an airline wants a wholesaler to sell their tickets, the airline must ensure the supply of a certain number of seats on future flights (up to six months in advance of the flight). The airline, however, will only know approximately one month before the flight whether or not the seats have actually been sold. As the seats are unlikely to be sold if the wholesaler returns them at this late stage, this form of seat reservation is seen by some industry sources as a capacity constraint.

It may be true that, to a certain extent, the Japanese tour consolidators do exert a degree of market power and as a result they have some control over the prices charged for tour packages to Australia (and other destinations). There is no substantive evidence, however, that the structure of the Japanese tour consolidation industry represents a significant barrier to the continued development of the Japan-Australia tourist market.

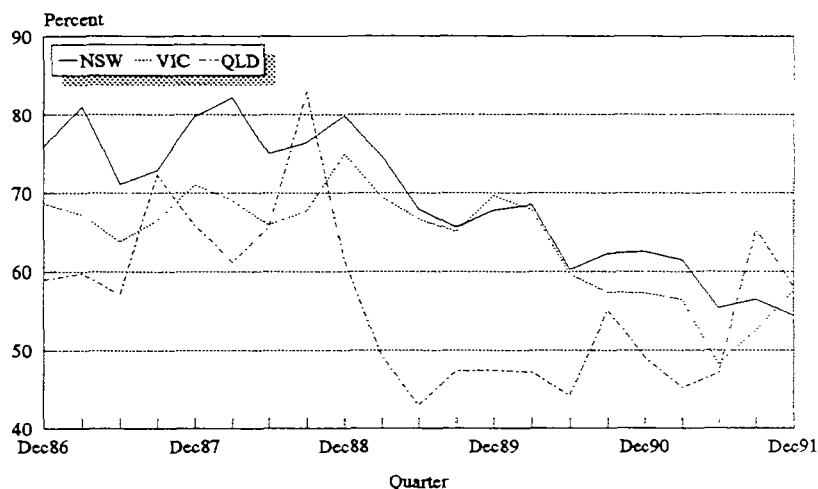
Accommodation prices and supply

Almost 74 per cent of Japanese visitors to Australia arrive on an inclusive tour package, and in most cases (98 per cent) the cost of accommodation has been included in the price of the package. The difference in expenditure on food, drink and accommodation per person between those Japanese visitors arriving on inclusive tour packages (\$188) and those not (\$1 104), provide some indication of the significance of the price of accommodation to the overall cost of package holidays (BTR, 1992a).

The question, however, of whether Australia's accommodation industry is extracting premium prices from tourists is not one that can easily be answered. Pannell, Kerr and Forster have compiled a statistical review, using voluntary contributions of data from 1 850 accommodation establishments worldwide, and is designed to be both a reference and an operational aid for those in the industry. According to this publication, Australia has one of the highest average daily rates per occupied room of all the countries surveyed. Industry sources, however, believe that Australia's accommodation industry is still a competitive one, and that the high prices are the result of high input costs.

Figure 4.1 shows the quarterly room occupancy rates for both four and five star hotels and motels in New South Wales (NSW), Victoria and Queensland between 1986 and 1991. It was felt that the majority of Japanese tourists would use this level of accommodation, and it is known that the three states included in this analysis are the most popular destinations for Japanese tourists (see Table 2.8).

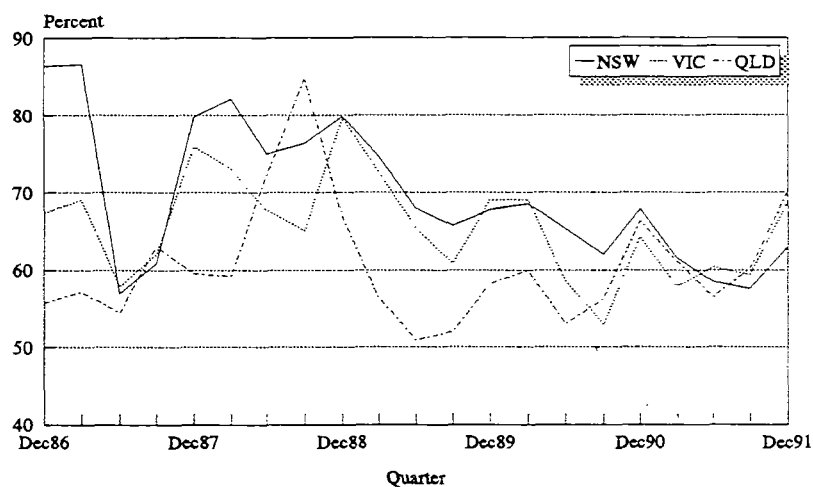
FOUR STAR HOTELS



Source ABS (1991b).

Figure 4.1 Quarterly room occupancy rates for Australian four and five star hotels, 1986-1991

FIVE STAR HOTELS



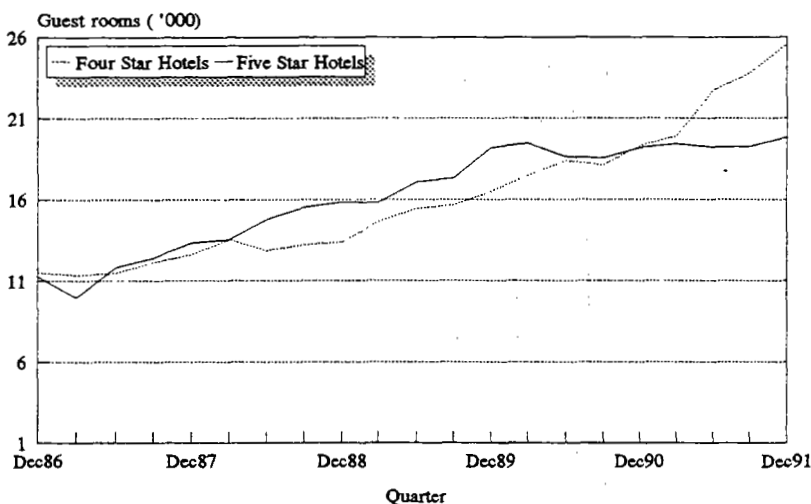
As can be seen from the diagram, there has been an overall fall in occupancy rates in four and five star hotels over the last five years, with the trend becoming even more apparent from 1988 onward. The higher levels experienced in 1988, particularly in

Queensland during the September quarter, are almost certainly the result of the Bicentenary celebrations and Expo '88. Australia wide, the average occupancy rate for four and five star hotels over this period is 61 and 63 per cent respectively.

These relatively low utilisation rates could be used to support two opposing arguments. Members of the industry could use these figures as evidence of the accommodation sector being unable to extract premium prices from tourists on package tours. On the other hand, some might argue that the low occupancy rates are the result of the accommodation sector trying to extract premium prices from tourists.

There are a number of factors which have influenced the room occupancy rates in luxury hotels over the past five years. These factors include:

- Supply of accommodation:- as can be seen in figure 4.2, there has been a steady increase in the number of four and five star hotel rooms over the past five years. Between December 1987 and December 1991, there has been a 22 per cent and 15 per cent annual average increase in the supply of four and five star hotel rooms respectively.



Source ABS (1991b).

**Figure 4.2 Quarterly supply of guest rooms in
Australian four and five star hotels, 1986-1991**

- Price:- prices in Australian hotels have tended to be higher than the international average, including competing Western destinations (Pannell, Kerr and Foster, 1990).

- World-wide trends:- there has been a world-wide decline in hotel occupancy levels and an increase in prices (Pannell, Kerr and Forster, 1990).

The Bicentenary celebrations and Expo'88:- it is only natural that after the unprecedented number of visitors to Australia in 1988, a fall in visitor levels would follow, which will have repercussions on room occupancy rates.

There is anecdotal evidence that, in the short term, accommodation costs contribute to the high package prices of Australian holidays. The Japanese suggest the high accommodation costs of early 1989 were a major determinant of the downturn in Japanese demand during 1989. This is supported by Figure 3.4, where the downturn occurred prior to the pilots' dispute in August.

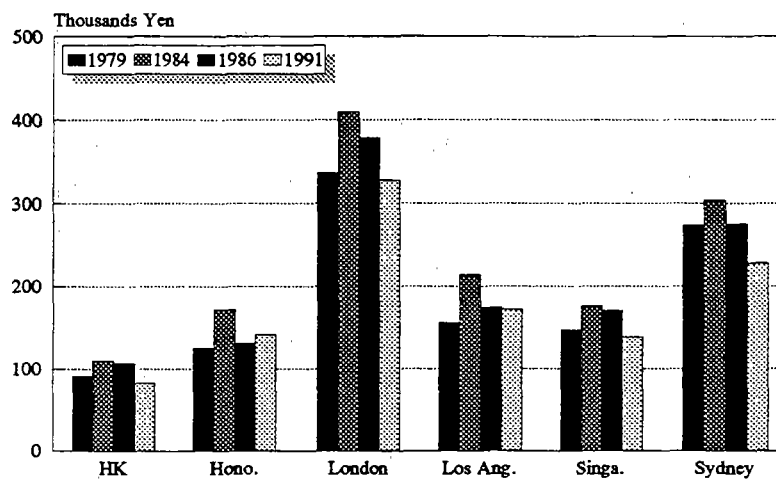
Both the tour consolidators and the high price of accommodation in Australia may contribute to the high price of package holidays to Australia in the Japanese market. However, the fact that the 26 per cent of Japanese visitors to Australia who did not travel on an inclusive tour package spent an average of \$1 889 on air travel (BTR, 1992a), which is approximately double the additional expenditure needed for accommodation by these travellers, implies that it cannot be concluded that accommodation prices and the tour consolidators are the sole contributing factors to the packages relatively high prices. The following section discusses the price of air travel from Japan to Australia.

Air fares

An analysis of real economy air Japanese fares in Yen from Tokyo to a number of destinations shows little net movement in real fares over the period 1979 to 1986 (see figure 4.3). Real air fares increased between 1979 and 1984, and then fell in 1986. By 1991, with the exception of Honolulu and Los Angeles, real air fares had declined to below the 1979 values. The most significant fall occurred in the Tokyo-Sydney route, with a real decline in air fares of nearly 17 per cent between 1979 and 1991.

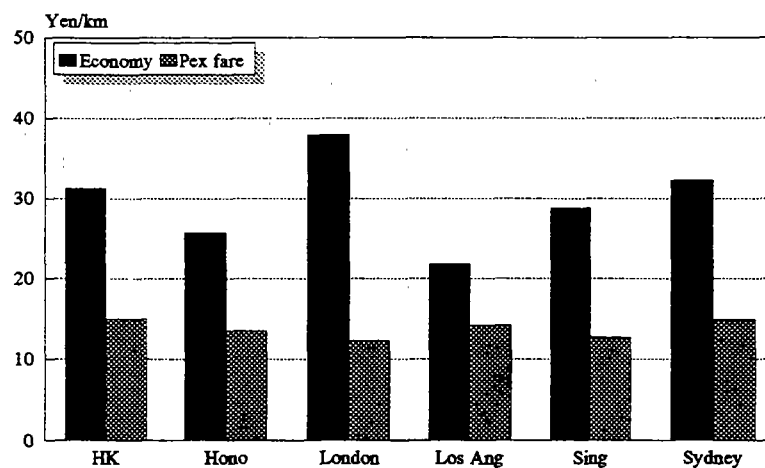
It appears that the carriers have passed on to the consumer some of the airlines' cost savings with regard to the appreciation of the Yen since 1986. This may suggest that the designated carriers, Qantas, JAL and ANA have been competitive and have not taken advantage of their market position.

However, an analysis of published economy and pex air fares on a kilometre basis for 1991 shows that the Tokyo-Sydney route has the second highest air fares per kilometre of the routes examined (see figure 4.4). When compared with the Tokyo-Los Angeles route (a route of similar distance), the Tokyo-Sydney route has revenues per kilometre that are 48 per cent higher for economy fares and 5 per cent higher for pex fares. Although this comparison ignores the differences in route density on these two routes, this analysis does tend to suggest that the Japan-Australia carriers have exercised a degree of market power when setting economy and pex fares.



Source ABC International, 1991.

Figure 4.3 Real economy air fares from Tokyo, 1979-1991



Source ABC International, 1991.

Figure 4.4 Published air fares from Tokyo, May 1991

AIRLINE INDUSTRY CONCENTRATION LEVELS

The workings of the market mechanism in the Japan-Australia aviation market is regulated by the operation of the bilateral air service agreements. As a result, the manner in which Australian and Japanese designated airlines operating the route

conduct their affairs is relatively independent of other competitors, suppliers and customers.

The Japan-Australia aviation market is dominated by uplift/discharge traffic which is effectively reserved for the designated national carriers of both countries. There has been continued growth in the uplift/discharge traffic segment of the Japan-Australia route (refer to Tables 4.1 and 4.2).

The airline market shares are divided primarily between the three airlines with direct service rights. Qantas has the largest market share, due to decisions made in the past five years to increase capacity ahead of demand, in order to protect slots at Japanese airports. In addition, Japanese carriers have selected not to use all their available capacity, partly because, unlike foreign carriers, they do not need to protect their slots, and partly because the Japanese carriers have a crew shortage, limiting the number of flights they can make, which is unlikely to improve in the short term. The growth of the market during this period, along with the high yield on the route, has contributed to the importance of this route to Qantas.

The Japan-Australian aviation market, whether measured by origin/destination or uplift/discharge, is considered to be highly concentrated. Details of market share for operators between 1985 and 1991 are provided in table 4.8.

TABLE 4.8 HERFINDAHL-HIRSCHMAN CONCENTRATION
INDEX OF UPLIFT/DISCHARGE AND
ORIGIN/DESTINATION TRAFFIC ON THE JAPAN-
AUSTRALIA ROUTE, 1985, 1988, AND 1991.

	1985	1988	1991
<hr/>			
	Uplift/Discharge		
Top 3 carriers	4 626	4 356	4 387
	Origin/Destination		
Top 3 carriers	2 697	3 041	3 813
Top 7 carriers	2 790	3 141	3 839
<hr/>			

Source BTCE estimates.

The table shows that on the basis of uplift/discharge traffic, the route has become less concentrated over time, due to the introduction of the third carrier, ANA, in 1987.

However, the origin/destination market has become more concentrated over time, as the top three carriers (Qantas, JAL and ANA) have improved their service quality. In terms of both uplift/discharge and origin/destination traffic, the major share of the market by Qantas, JAL and ANA, point to a highly concentrated market structure.

The structure of the market and the capacity restrictions spelt out in the Japan-Australia ASA appear to have precluded any striving for market share growth between the designated carriers. The barriers to entry to the direct Japan-Australia aviation route (in the form of the designation requirement) tended to reinforce non-competitive market conduct towards each other.

The extensive co-operation on the route between Qantas and JAL has a long history. The close economic and commercial relationship between these carriers extends to their joint operation of services and being equity holders in Air New Zealand. The practice of joint sharing of flights between Qantas and JAL appears to have produced beneficial outcomes for both parties in ensuring the commercial viability of services on thinly trafficked routes.

The designated airlines on the Japan-Australia route appear to have considerable market power in regard to setting price levels for their services. This is consistent with the nature of the Government-to-Government bilateral air service agreement, which mitigates against price competition and favours the respective national operators reaching a commercial consensus on pricing issues. In terms of these agreements, Australia's position is to avoid price control.

Although the airlines have passed some savings on to the consumers which resulted from the appreciation of the yen since 1986, price competition between Qantas, JAL and more recently ANA does not appear to have been a pronounced feature of the market.

OPERATIONAL CONSTRAINTS

There are also operational constraints faced by the airlines when considering market expansion, both in terms of the capacity and the finance required. It is important to appreciate how the airlines are currently operating, and how they would need to change if 1.8 million Japanese tourists are to arrive in Australia in the year 2 000.

Current capacity on the Australia-Japan route is 84 units of B767 equivalent capacity per week. If load factors of 70 per cent are assumed, then by the year 2 000, capacity will need to have increased to 231 units per week if the ATC's target of 1.8 million Japanese arrivals is to be achieved. Even if the Japanese Government agreed to an increase of 147 units of B767 equivalent capacity per week, it would be divided evenly between Australia and Japan. Given the current crew shortage being experienced by Japanese airlines, it will be difficult for the Japanese airlines to operate another 74 units per week. The question of whether there is sufficient infrastructure in Japan must also be considered.

In addition, the capital required to finance the increase in services might also act as an impediment to achieving the ATC's target. Assuming an average flight from Australia to Japan lasts approximately eight and a half hours, and that a B767 has a utilisation level of 4 100 hours per annum, an additional 16 B767s will be needed on the Australia Japan route, which would require a capital outlay of approximately of \$1.6 billion.

Despite these problems, an increase in the number of Japanese arrivals in Australia could result in an increase in economic returns. The next section attempts to answer the question - what would be the contribution to the balance of payments from an increase in the level of competition on the route?

ECONOMIC RETURNS TO AUSTRALIA

The contribution of the Japan-Australia aviation route to Australia's balance of payments, after allowing for first round foreign expenditure leakages (apportionment of imports such as aircraft and manufactured goods and repatriation of profits from foreign investments), was estimated to have been about \$780 million in 1990 (see table 4.9). Details of the analysis and the assumptions can be found in Appendix I. The Bureau estimated that Qantas made an operating profit (before allowances for overheads) of about \$210 million from the route in 1990 and about \$40 million after an allowance for overheads. The question is whether the contribution to Australia's balance of payments would be greater if competition on the route was increased.

A sensitivity analysis was performed, based on the assumption that increased competition would lead to a 10 per cent fare reduction for the travellers on the route. In the absence of an accurate estimate of the price elasticity, two scenarios were used. The first sensitivity analysis assumed demand was elastic and a value of -1.5 was used. This value means that for every 1 per cent reduction in air fares, there would be a corresponding increase in demand of 1.5 per cent.

Under this modelling scenario, it was estimated that the route made a contribution to Australia's balance of payments of about \$874 million, an increase of \$94 million or 12 per cent from the base case situation. The major beneficiaries of the increased demand would be the suppliers of tourist services in Australia and the Japanese and Australian consumers on the route. It was estimated that Qantas' operating profit would remain relatively steady at \$215 million, or a net profit of \$40 million (after overheads).

TABLE 4.9 ESTIMATED BALANCE OF PAYMENTS OF THE JAPAN-AUSTRALIA ROUTE, 1990

(\$ million)

	<i>Base</i>	<i>Elastic demand</i>	<i>Inelastic demand</i>
Tourist exp. in Australia	547	629	553
Japanese air fares for Qantas	441	457	401
Qantas import substitution	43	41	41
Foreign airline exp. in Aust.	60	68	61
Australian exp. abroad	-102	-108	-108
Air fares on foreign airlines	-38	-36	-36
Qantas expenditure overseas	-172	-177	-168
Total	780	874	743

- Notes*
1. Elasticities of 1.5 and 0.1 for the elastic and inelastic scenarios respectively.
 2. First order estimated expenditure leakages of between 4 and 28 per cent for the categories of tourist expenditure in Australia.

Source BTCE estimates.

The second scenario assumed that Japanese travellers were not price sensitive, and a value of -0.10 was used. Under this scenario, the contribution to the balance of payments fell by an estimated \$37 million or 5 per cent to \$743 million. The beneficiaries of the price reduction would be the Japanese and Australian consumers, and because 90 per cent of the travellers on the route are Japanese, Japan would benefit the most from the price fall. The major loser would be Qantas, whose operating profit was estimated to fall to \$168 million, or a net loss of \$2 million.

It was also estimated from the analysis that the break-even point for Australia's balance of payments requires a price elasticity of Japanese visitors of -0.55. That is, if demand is more elastic than -0.55 (such as -1.5), Australia's balance of payments appears to benefit from reduced air fares. On the other hand, if the demand is more inelastic than -0.55 (such as -0.1), then it appears to be in the national interest to maintain the current pricing structure.

The gain of \$94 million under the elastic demand scenario should be put in perspective. It represents less than 2 per cent of international tourism expenditure in Australia, and 0.2 per cent of total tourism expenditure.

To obtain a more detailed analysis of the impact on the balance of payments of a change in demand on this route, further research work is required to obtain reliable estimates of the price elasticity for each segment of the Japanese tourist market to Australia.

Although this balance of payments analysis provides some useful insights into the economics of the route, it only tells part of the story. Further work is planned to assess the net welfare gains from possible structural changes on the route.

JAPAN-AUSTRALIA AVIATION STRATEGIES

As discussed earlier, the prospects for increasing demand for Japanese tourism to Australia appear to be quite good. In view of this, it is necessary to consider the options for increasing the supply of services between the two countries.

Short term increases in airline capacity

One short term option would be to expand airline capacity on the route without increasing the need for airport slots. There are a number of possible solutions, ranging from replacing smaller aircraft with larger aircraft, through to convincing the Japanese carriers to take up their full ASA entitlements. The Japanese carriers could, in theory, expand services to the full ASA by utilising slots currently reserved for other destinations.

An increase in seat capacity on the route could be achieved by replacing Qantas' B767 services with B747 aircraft. It is estimated that this would provide an extra 55 000 seats per annum (13 per cent) above the 1991 seat capacity.

Since most Japanese travellers are on group inclusive tour packages, there is only a small demand for first and business class services. Qantas has therefore decided to replace the majority of these seats with economy seating. It is estimated that this will increase seat capacity on the route by a further 50 000 seats per annum.

Currently, Qantas and JAL are operating a number of joint services that utilise Qantas' landing slots. In the past, these joint services have proved very useful in developing routes to new destinations. However, if Qantas was to take over these services in their own right, another 60 000 seats per annum would be added to the route, providing JAL did not divert any of their replaced aircraft.

Further seat capacity has recently been obtained due to new services (agreed at the 1991 bilateral negotiations in Canberra) which began in October 1991 and March

1992. Qantas doubled its departures from Fukuoka (to four per week) in October, while JAL has announced plans to introduce its own separate flights to Cairns. Further seat capacity could be achieved if the Japanese airlines decided to take up their full entitlements. However, while the Japanese carriers continue to have a shortage of aircraft and crews, this last strategy is unlikely to be successful in the near future.

The above strategies would increase capacity on the Japan-Australia route by about 200 000 seats per annum above the 1991 level. Qantas has already begun to implement these strategies, which should be completed by 1994. Without this extra capacity it will not be possible to meet the ATC's target of 765 000 Japanese visitors to Australia in 1993.

The entry of fifth freedom operators on the Japan-Australia route could be expected to provide at least an incremental expansion in capacity. The significance of fifth freedom operators on the route would depend on the nature of the capacity arrangements which are negotiated between the respective parties. The benefits of fifth freedom operators entry would be greater if they stimulated patronage, rather than merely representing a redistribution of existing patronage between operators.

Charter services between Japan and Australia could also be utilised to provide extra capacity outside of the restrictions of the ASA. These operations are commonly used to assess the demand for scheduled services on new routes. Given the preference of a significant proportion of Japanese travellers for group inclusive tours, charters, as in Europe, may be able to develop a significant market share in the outbound tourism market.

Qantas has already begun to operate charters with substantial capacity to Sapporo, Sendai, as well as smaller operations to Aomori, Akita, and Okayama. Charter subsidiaries of JAL and ANA plan to operate a number of charter flights to East Australia from 1992.

Medium to long term capacity solutions

Infrastructure constraints

The opportunity to expand capacity on the Japan-Australia route is to some extent limited by the lack of capacity at required times at the major Japanese international airports. Traffic demand for flights is skewed heavily toward Saturday to Monday departures, with no reported increases in slot availability for the near future at Narita and Osaka. While expansion programs are underway at both airports, this additional capacity is not likely to be available until late 1994.

The exact dimension of limitations imposed by Japanese airport infrastructure is difficult to precisely measure given the dynamic nature of airline activities. Slot times can be swapped between airlines and the approved availability of slots may not be useable given restrictions in place at the intended destinations.

Currently the most popular times for departure at Tokyo (Narita) airport are mostly unusable for travel to Sydney because the flights would arrive during curfew hours. The easing of curfew restrictions at Sydney could encourage carriers to redirect aircraft to the high yielding Japan-Australia route.

Failing this, promotion of non-curfewed destinations (for example, Melbourne) could go some way to increasing the availability of flights pending completion of increased airport infrastructure in Japan. The importance of slot availability at Tokyo is reinforced by the requirement for all direct traffic to Australia departing Osaka (except Northwest's services) to be channelled through Tokyo.

In the short term, the ability of the designated carriers (and indeed fifth and sixth freedom carriers) to accommodate an increase in the number of Japanese tourists to Australia is possible (provided the steps outlined above are implemented). In the medium term, from the mid-1990s and beyond, the problem is in part likely to be helped by Japan's airport investment program. However, if the ATC's target of 1.8 million Japanese visitors by 2000 is to be realised, then there will need to be substantial further increases in capacity.

Strategies to increase capacity

There are a number of strategies that could be pursued in the medium to long term to increase seat capacity on the route. These range from the introduction of new gateways in Japan to the development of a hub airport in Asia that would feed traffic to and from Japan.

Currently Qantas uses four of the six gateways it has access to in Japan for scheduled services. The Osaka gateway will be utilised when the new airport is completed, while the Naha gateway (Okinawa) may not be used for some time. Qantas has begun services to Sendai and operations to and from this gateway would divert some passenger traffic from Narita and provide an increase in capacity. However, given the catchment area of this airport, the increase is unlikely to be large.

A possible long term strategy for the airlines would be the development of a hub in a nearby Asian country, such as in Korea or Taiwan. Seat capacity to and from Japan could be significantly increased with such a hub operation, since regional airports in Japan would be able to be effectively linked with the hub. This would then decrease the dependence on Tokyo and Osaka.

Given, however, the apparent preference of Japanese tourists for direct services, the hub operation would need to be marketed in an appropriate way. One possible attraction of such a hub would be the marketing of dual destinations to tourists (Korea and Australia). In 1989, Korea and Taiwan accounted for 22 per cent of Japanese overseas travellers. With the increasing length of Japanese vacations, the marketing of dual destinations may be quite successful.

Summary

In the medium term, traffic on the route may be constrained by a lack of airport facilities in Japan. In these circumstances Australia would be unlikely to benefit from reduced air fares on the route as there is little point in developing and stimulating a market if the generated passengers cannot then be serviced. Under capacity constraints, the continuation of Australia as a relatively high priced destination catering for the premium tourist market may well yield the greatest national returns.

If, however, infrastructure constraints do not apply in the longer term, then greater price competition on the route should be encouraged to stimulate demand.

CHAPTER 5 CONCLUSIONS

The outbound Japanese tourism expansion has been based on sustained economic growth during the 1980s and a supportive Government tourism policy. For example, Japan's Ten Million program has been a success with the target of ten million tourists going overseas being achieved in 1990, some two years ahead of schedule. With Japanese GDP forecast to grow by 3.5 per cent per annum to 1994 and the high Japanese income elasticity of demand for travel, such sustained economic growth is expected to add further to the demand for international travel.

The prospects for increasing the percentage of Japanese visiting Australia would appear to be good, given one of the program's stated objectives is to increase the ratio of overseas visitors to a similar level to that of Australia: in 1987 about 10 per cent of Australians went overseas, implying a total of at least 12-13 million Japanese tourists in the early 1990s. Based on a moderate 6 per cent growth rate in outbound tourist numbers in 1991, some 12.5 million Japanese are forecast to travel overseas in 1992.

There is some evidence of high potential growth in the Japan-Australia tourist market. A number of studies indicate that Australia is the country most Japanese want to visit. If the Australian Tourist Commission's targets are met then there will be about 1.8 million Japanese tourists coming to Australia by the end of the century, up from about 530 000 in 1991. Given the considerable national economic benefits derived from Japanese tourists, any impediments to achieving the maximum potential growth must be identified, together with possible ways of overcoming them.

Price competitiveness

Australia appears to have been a relatively high priced destination in respect of medium priced package tours, which comprise the major segment of the market. A recent Qantas study indicated that medium priced Australian holidays at any time of the year were about Yen 50 000 - 200 000 more expensive than similar length holidays to Hawaii and the US West Coast. Single destination holidays to Cairns vis a vis Hawaii were priced at a premium of about Yen 30 000. Packages to London or Paris were similarly priced below a Cairns holiday (Qantas 1990).

The major reasons for Australia being a relatively high priced destination for the Japanese in recent years include the following.

- Limited competition between the designated carriers:- This partly reflects the highly concentrated nature of the market and the barriers to market entry which existed before the recent liberalisation of Australia's international aviation policy. Other factors which adversely influenced competition on the

route in recent years were the overall capacity limits and the way in which the total capacity was distributed between the designated carriers, as determined through the Air Services Agreement.

Limited competition from third country carriers:- the limited extent of fifth freedom traffic on the Japan-Australia aviation route tended to reinforce capacity limits and reduce downward pressure on prices. Where carriers introduced stopovers between Australia and Japan, their ability to compete for additional market share and influence prices was limited because stopovers are not attractive to Japanese business and time-sensitive holiday travellers, given the short duration of annual leave.

Airport infrastructure:- capacity constraints are a feature of Japanese airports, especially at the two largest centres, Tokyo and Osaka. The ability of the designated airlines to offer additional flights is limited by the slots at their disposal.

Other factors:- Because holiday packages are made up of a combination of factors, it is not simply air fares which have resulted in Australia becoming a high price destination. Accommodation and other landside factors have also contributed to the relatively high cost of a package holiday to Australia.

The Japanese tour consolidators may, to some extent, exert a degree of market power and as a result have some control over the prices charged for tour packages to Australia (and other destinations). However, no substantive evidence was found to suggest that the structure of the Japanese tour consolidation industry represents a significant barrier to the continued development of the Japan-Australia tourist market.

The evidence presented in the study suggested that the market impediments outlined above resulted in air fares being higher than they would have been in a more competitive market. Whether high air fares on the Japan-Australia route tended to depress demand, or instead resulted in the designated carriers reaping the rewards of high prices, depends on assumptions regarding demand elasticities.

It is understandable that the airlines maintained higher prices rather than introduced penetration pricing. The aim of the airlines is a commercial one; maximise profits where possible. In the light of this, Qantas has helped to develop the route, both for its own financial gains and for the economic benefits to Australia. Given the supply constraints, the high prices may have been an efficient demand rationing mechanism.

If, however, Australia is to maintain and expand its share of the Japanese outbound tourist market, greater attention may need to be given to overcoming supply constraints and to improving Australia's overall price competitiveness by reducing air fares, accommodation and related ground costs. In the longer term it appears that the main constraint on growth in the market may be the availability of landing slots and other facilities at some Japanese airports.

Recent changes in Australian aviation policy are likely to encourage increased Australian carrier presence on the route. The comprehensive agreement reached with New Zealand which provides Air New Zealand with a range of opportunities to exercise beyond rights out of Australia, including to Japan, will be a significant force in promoting competition on the route.

APPENDIX I ANALYSIS OF THE CONTRIBUTION OF THE JAPAN-AUSTRALIA AVIATION ROUTE TO THE BALANCE OF PAYMENTS

Introduction

It is important to examine the total effect of the Japan-Australia aviation route on the balance of payments. The analysis described here is not a rigorous and detailed one, but rather is indicative of the outcomes.

The Japan-Australia aviation route has both positive and negative effects on the balance of payments.

Balance of payments credits

Foreign tourists in Australia directly generate export income by two means:

- . by spending money on goods and services within Australia
- . by flying to and from Australia with an Australian designated carrier, in this case Qantas.

However, not all the money that is spent by foreigners in Australia stays in Australia. For example, visitors buy imported goods. The Bureau of Industry Economics (BIE) estimated in 1984 that every \$100 spent in Australia generates \$17 of imports. These are termed first order leakages.

Australia also saves money when Australians going abroad fly with Qantas rather than with a foreign airline. This effect is commonly called import substitution.

Other export income is generated by foreign airlines expenditure on goods and services in Australia. Items include commissions to travel agents, ticketing, check-in and baggage services, ground and navigation services, terminal and landing charges, fuel and provisions.

Balance of payments debits

Imports or debits are generated by Australians travelling overseas by:

- . spending money overseas

· flying on foreign airlines.

Qantas also spends a significant proportion of its expenditures overseas, on similar items that foreign airlines spend in Australia.

Assumptions used in the analysis

· Competition on the route would lead to a fall in airfares of 10 per cent. Elasticities under price responsive demand (elastic) assumed to be -1.5 and -0.1 for inelastic demand. Demand elasticity for Australians going overseas remained at -0.6 for all scenarios.

· Aerocost used to estimate cost of flights to Japan for the range of aircraft used by Qantas and for all flight routes. Costs were then weighted by aircraft type and route to obtain an average cost per service.

· Qantas maintained its market share of 50 per cent under all scenarios. The same market share was used for the Japanese and Australian travellers.

· The same fare type distribution was maintained under all scenarios, namely:

- 1 per cent first class traveller
- 5 per cent business class traveller
- 4 per cent economy class traveller
- 90 per cent discount ticket traveller.

· Fares were an average of the published fares for 1990 from ABC World Airways Guide. Fares in Yen were converted to Australian dollars at the rate of Yen 110 to \$A1. Commissions of 15 per cent applied on all Australian fares bought and 20 per cent for Japanese fares.

· BTCE estimates of expenditure leakages were included in the study. The model assumed first order expenditure leakages of:

- 10 per cent for all accommodation
- 28 per cent for all shopping
- 4 per cent for all travel within Australia
- 7 per cent for all entertainment.

· Japanese visitor expenditure in Australia based upon BTR 1990 International Visitor Survey expenditure figures.

· Australians spent on average \$2 100 abroad.

· Foreign airline expenditure in Australia for goods and services consist of a proportion of total flight costs:

- half of the fuel cost of the return flight
- one quarter of the flight's maintenance cost
- one third of the government charges such as landing and navigation costs
- one half of the provisioning and ground services cost.

Qantas' expenditure overseas on goods and services consist of a proportion of total flight costs:

- all of the capital components
- half of the fuel cost of the return flight
- one quarter of the flight's maintenance cost
- one third of the government charges such as landing and navigation costs
- one half of the provisioning and ground services cost.

For inelastic and elastic scenarios, load factor was increased from 68 per cent (base case) to 70 per cent. In addition, more 747 aircraft were utilised so that average seats per flight increased 10 per cent from 276 to 304. Costs were increased by 3.1 per cent to account for this.

No additional infrastructure required to service additional Japanese visitors.

Revenue from freight and other sources was estimated at 33 per cent of passenger revenues (Qantas Annual Report).

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AGPS	Australian Government Publishing Service
ATC	Australian Tourist Commission
FAC	Federal Airports Corporation
BIE	Bureau of Industry Economics
BTR	Bureau of Tourism Research
IAC	Industries Assistance Commission
MOT	Japanese Ministry of Transport
OECD	Organisation for Economic Cooperation and Development

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