

quarterly market report

Japan

April - June 2007

Market Highlights

# of outbound visitors:	4 246 670
% change from previous quarter:	-0.22%
# of visitors to Canada:	65 675
% change from previous quarter:	-9.07%

Comments / Other information:

- The quarterly period covered is February to April 2007, with the source of the statistics being Stats Canada and JNTO, compared to the equivalent period last year.
- For the calendar year to date figures, the total outbound market continues its modest growth, while visitors to Canada continue to decline.
- Canada is grouped with other longhaul destinations including Austria, Australia, Germany, New Zealand, Scandinavia and USA who have seen year to date declines, while at the same time shorthaul destinations continue to grow such as China, Taiwan, Hong Kong, Macau, Malaysia, and Vietnam.
- Other impacts particularly affecting Canada, include reported increases of 25% in air fares to aurora destination, and the strength of the Canadian dollar.

Air Capacity

- **Japan-Vietnam Talks Lead to Agreement** - The governments of Japan and Vietnam have reached an agreement to expand bilateral air capacity up to a total of 17 flights (for B767 aircraft) on a weekly basis at the latest Japan-Vietnam aviation negotiations held in Tokyo.
- **Centrair to Handle 351 International Flights in Summer** - Chubu International Airport (Centrair) near Nagoya will handle a total of 351 international flights on a weekly basis, 27 flights more than a year ago and eight more than the 2006/2007 winter schedule.
- **Narita Airport to Handle 2,893 Flights a Week in Summer** - The number of flights that will operate out of Narita Airport in Tokyo in the summer schedule of 2007 is expected to reach 2,893 international passenger flights a week, up 122 flights from the summer schedule a year earlier.
- **Kansai Airport to See Record 776 Flights in Summer but Flights to North America to Drop** - The number of flights that will operate out of Kansai International Airport in the fiscal 2007 summer schedule is expected to reach 776 a week at its peak in July, a figure that will break the all-time record number of takeoff/landing for any summer or winter season, according to the data released by Kansai International Airport Co. (KIAC).
- **Continental Reveals Year-long Japan PEX Fares** - Continental Airlines (CO) has introduced its Japan-departure PEX "Fly Right" fares for the full year from April 2007 to March 2008. The move to announce fares for a full year is a departure from its common practice of unveiling fares every six months. CO said a 12-month period will encourage consumers to make their travel plans earlier.
- **United to Cut Kansai/Honolulu, Narita/Hong Kong Services** - United Airlines (UA) will discontinue its daily services on the Narita/Hong Kong and Kansai/Honolulu routes in its efforts to maximize revenues and use of aircraft. UA said that despite both routes having generated a high average load factors, they posted lower-than-expected levels of profitability.

- JL to Boost Late Night Haneda Charters by 70%, Double daily round-trip to Incheon Each Weekend - Japan Airlines (JL) plans to increase the number of international charter flights during the late-evening/early-morning hours between 11:00 p.m. and 6:00 a.m. at Haneda airport in fiscal 2007 by some 70% from the count fiscal 2006 to 300.
- Larger Plane to Fly on NH's Narita/Beijing Service, Celebrates ANA's China Year and 20th Anniversary of China Services - All Nippon Airways (NH) plans to introduce larger aircraft on its Narita/Beijing route as part of its "ANA's China Year" in 2007 to commemorate the 35th anniversary of normalization of diplomatic relations between Japan and China. The year, which also marks the 20th anniversary of NH's China services, will also have NH operate charter flights on multiple city pairs between Japan and China.
- JL to Up Flights to China and Vietnam from May 31 - Japan Airlines (JL) will increase the number of flights it operates on China and Vietnam routes from May 31, 2007 in response to strong business and leisure passenger demand to these high growth markets.
- Japan plans version of 'open skies' deal - The Japanese government is planning to ease access for international carriers to the country's regional airports in the hope of precipitating what would be the equivalent of an EU-US "open skies" deal. The Asia Gateway Plan would cut ticket prices and stimulate trade. It would be the most radical liberalisation of its highly regulated skies that Japan has undertaken in decades. Officials hope it will help spur an "open skies" agreement within the Association of South East Asian Nations due for discussion next year.
- Tokyo-Shanghai Flights Slated To Increase Via Local Airports - Japan and China plan to allow charter flights between Tokyo's Haneda airport and Shanghai's Hongqiao airport within the year, paving the way for two to four round trips daily from the domestic airports.
- Govt Panel Backs Longer Intl Flights From Haneda Airport - Slots for international flights at Tokyo's Haneda airport should not be limited to short-distance flights but be used to accommodate services to such destinations as Beijing, Hong Kong and Hawaii, the Council for the Promotion of Regulatory

Reform said in recommendations. Emphasizing the necessity of deregulation to enhance consumer convenience and promote competitiveness among carriers, the council also suggested using a bidding system to assign takeoff and landing slots, as well as removing minimum airfare restrictions.

- Japan Airlines posts Y16.3bn annual loss - Japan Airlines, Asia's leading airline by revenue, missed its pledge to return to profitability and reported its second consecutive annual net loss. The loss was due mainly to the removal of Y54.4bn of deferred tax assets from its balance sheet.
- JAL Expands Flights To And From China - Japan Airlines increased flights between Japan and China, with an eye toward making these routes its second pillar after trans-Pacific services. Starting from May, JAL gradually will increase flights between Narita and Beijing from 14 a week to 19, while raising those connecting Narita and Guangzhou from 11 to 13, and adding two more flights linking Nagoya and Tianjin to bring the total number to seven.
- New rules to the airline charter business will allow tour participants to stay more than 50% in other countries will be advantageous to European destinations.

Economic / Political Environment

GDP growth:	+2.6%, Q1 2007
forecasted economic growth:	+2.3%, 2007. +2.3%, 2008
unemployment rate:	3.8%, April 2007
inflation:	0%, April 2007
consumer price index:	0%, April 2007
exchange rate:	JPY 1 = CAD 0.008650, -12.3%
net national disposable income:	n/a

Comments / Other information

- Japan's "zombies" – distressed borrowers who wreaked havoc on the banking system – have officially been laid to rest. In March the state-run

Industrial Revitalisation Corporation of Japan closed its doors, having helped orchestrate 41 bail-outs. Still more zombies, who borrowed an average of \$30bn a year in the decade to 2003, have weaned themselves off life support through corporate restructuring and consolidation.

- Japan's Productivity Only 70% Of U.S. In '05: Cabinet Office - Japan's productivity is the lowest among industrialized nations, languishing at just 70% of the U.S. figure in 2005, an analysis by the Cabinet Office shows. The productivity figures, which indicate how much additional value each worker in a given country creates, were calculated by using gross domestic product and other economic data, divided by the number of workers. With productivity in the U.S. set at 100, Japan's productivity in 2005 stood at 71. The numbers came to 87 for the euro zone nations, 83 for the U.K. and 75 for the average among the Organization for Economic Cooperation and Development member countries.
- Japan's trade patterns - As further evidence of the shift in global power, China overtook the US to become Japan's biggest trading partner in the fiscal year just ended. Exports bound for the US rose just 2 per cent last month on a year-on-year basis, while those headed to China increased by 15 per cent.
- Rents Surge For Tokyo's Existing Offices, Up For Second Straight Year - Rents for existing office space in Tokyo rose at the highest rate since 1993 for the first half, reflecting a tightening market due to corporate expansion fuelled by a strong economy.
- Yen's Trade-Weighted Value Against Major Currencies Lowest Since 1985 - The yen continues to slide in foreign exchange markets, with its real trade-weighted value slipping to a level not seen since the signing of the Plaza Accord in September, 1985. According to the Bank of Japan, the yen's real effective exchange rate, which shows the currency's value relative to the currencies of Japan's major trading partners, was 94.9 in May, down 1.7 points from a month earlier.

Emerging Tourism Trends

- Blogging Growing More Popular in Japan, Japanese Lead the World in Blogs - Blogging has taken hold in Japan to the point that Japanese are the number one bloggers in the world. That is according to the latest report released in April by Technorati called "The State of the Live Web" which analyzes the trends around blogs and blogging.
- Macau Tourism on a Long Roll With 35th Straight Month of Higher Arrivals From Japan - Outbound traffic from Japan to Macau continues to surge with February posting a 29.63% rise compared to a year ago.
- Seniors, Boomers Keep Outbound Market Afloat in 2006 - Seniors and boomers are set to play a bigger role in outbound travel this year as they did in 2006. Last year, seniors in their 60s posted the strongest upturn in overseas travel of 3.28% after their 70s-and-up counterparts. The increase translated to 2,111,469 travelers between 60 and 69, said the Japan National Tourism Organization (JNTO), which released the latest findings.
- Four in 10 Willing to Book Travel Via Mobile Phones - Nearly two in every five people are willing to book overseas travel via their mobile phones, underscoring the importance of providing convenience and mobility for today's wired society, according to a consumer conducted by Ab-road.
- E-Money Now a 3-Way Contest As Seven & I Enters The Fray - Seven & i Holdings Company launched its own e-money service dubbed nanaco on April 23, the first time that a major retailer will engage in e-money operations. The move marked the start of a three-way battle between it, the Sony Corporation affiliated Edy and railway-operated e-money services such as Suica.
- E-Money Use Grows, But Lack Of Standard A Pain For Shoppers - Japanese consumers are rapidly warming to the idea of paying with e-money by just waving a smart card or cell phone in front of a reader. The number of members to e-money services mushroomed by some 60% to 57 million in the year ended March, meaning that e-money is now being used by one out of every 2.2 people. However, different kinds of e-money require different readers, and retailers are not always equipped to accept the kind of e-money that a customer uses.
- Japanese best tourists in Europe, according to survey of hoteliers - Japanese

tourists are the best in Europe, according to a recent survey of hoteliers across the continent. They came top of a league table following a questionnaire of 15,000 hotel owners who were asked, during a two-week period in April, to rate a selection of nations across a range of categories. Hoteliers across Europe were asked to vote for countries based on such things as cleanliness, generosity, noise, behaviour and spending power. Second in the league table of best tourists came the Americans followed by the Swiss. In the breakdown of the results, the Japanese were judged to be the best behaved, closely followed by the Germans. They were also judged to be the quietest of nations. Japanese scored well in terms of spending money, where the Americans came out on top. Japanese were considered to be the third best nation for tipping and came second, behind the Germans, in the cleanliness category. They were also judged to be the most polite and least complaining. Surprisingly, for a nation which tends to believe that it cannot speak foreign languages, the Japanese were thought to be quite good at using local languages when on vacation. The Japanese were judged to be the best tourists in each of the 12 European countries where hoteliers were questioned, apart from in Norway where they came second. The survey was prepared by the online travel agent Expedia.

Market Development Activities

- Fly-and-Drive Products Emphasized by Ontario - Boasting a 1% increase in Japanese travelers to 127,136 in 2006, Ontario Province in Canada is pushing more aggressively the fly-and-drive concept to further boost traffic from Japan beginning in 2007. During the Ontario Mission to Japan and Asia, David Lindsay, deputy minister, Ministry of Tourism, Ontario, said that the province outpaced the growth of Japanese travelers to Canada, which dropped 8.8% to 386,474. He said that Ontario Tourism's marketing plan in 2007 will be to maintain the popularity and visibility of icon destinations such as Niagara Falls in Japan, while heightening the awareness and visitation by Japanese to other areas of Ontario through various programs including fly-and-drive products. The fly-and-drive concept complements the Canada Tourism Commission's Brand Canada promotions focusing on pairing urban experiences with Canada's natural attractions. Japan -- the second-largest overseas market (10% share) for Ontario after the U.K. (21% share) -- is expected to generate a

14.8% rise in visitors in 2007 to 146,000.

- Marketing Garden Expands With New Investor and will be renamed AVIAREPS Marketing Garden - AVIAREPS AG, the world's leading airline representation and tourism marketing company, will invest in Marketing Garden Limited (who represent Ontario Tourism in Japan), Asia's largest tourism marketing company, to form what is considered to be the world's first truly global tourism marketing network.
- JTB World Vacations Eyes Higher U.S.-Canada Share, Active America Travel Summit in Minneapolis, Minnesota - While Japanese travelers continue to travel abroad, the U.S. is not gaining market share, said a JTB executive to participants of the Active America Travel Summit held last week in Minneapolis, Minnesota in the U.S. Toraji Abe, JTB World Vacations, America division director, told the more than 100 participants from Japan, Canada and the U.S. that the share of Japanese visitors to the U.S.-Canada is only 5% of the total number of travelers handled by JTB World Vacations annually.

CTC Activities

Trade Development

- Regional Seminar:
 - June 6 in Kobe (46)
 - June 7 in Hiroshima (35)
- Travel Trade Seminar:
 - June 26 with American Express (35)
- Canada Specialist Program:
 - Organised annual General Meeting on June 13 where 35 Canada Specialist from all over Japan participated. All major activities for the 2007/8 season were confirmed;

- Satomi Kawabata, JTB was invited to speak on Canada at 5 occasions where JTB's tour briefing sessions took place in Osaka;

Mitsuru Sano, Trans Orbit released 9 email newsletter covering recent news happening in Banff, Vancouver, Yellowknife, Vancouver etc. to 150 travel agents;

- Ikuko Beppu, N. O. Tourist has introduced two new tour programs in Tokyo, one to feature Cruising of Grand Princess and PEI and the other to feature Summer Aurora;

- Hide Matsuoka, OTA Nagoya has launched a special Canada campaign in Nagoya Centrair which was featured and televised by Chubu Broadcasting TV;

- Hideyo Ohki, Canadian Network gave a lecture on the history of Canada and tourism as a guest speaker for the 30 wives of the Liberal Democratic Party.

- Masao Konda, OTA Osaka produced and announced a new hiking tour to Waterton National Park;

- Made special consultations to 48 consumer enquiries that came through CTC website.

- Ski Tour:

- Overseas Ski Tour Committee consisting of 11 major ski tour operators announced the sales result for the 2006/07 season. Canada' sales was 4,254 (85%) and Europe 2,605 (96%) and USA 92 (103%). The decrease in the sales was ascribed to lack of snow.

- Rendezvous Canada - CTC hosted with the support of Delta Hotels and CHIP Hospitality 18 travel agents and two travel media from Japan at RVC. A post FAM was organised with the support of Tourism New Brunswick and Tourism PEI.

Consumer Development

- West Coast Three Cities consumer promotion was launched on 01FEB07 for

three months with TAYA hair salons at 145 locations across Japan with partners HIS, Sweet Maple, Icefield Water and Whistler Mountaineer. The components of the campaign include an in-house magazine, campaign and promotion websites, direct mail to TAYA's customers, and newspaper flyers. At the end of the first month 50 000 entries had been received for the promotion.

- Café Whistler opened for 100 days at Naeba in Japan with partners Prince Hotels, Tourism British Columbia, Tourism Whistler, Whistler Blackcomb and Air Canada. Providing a vehicle to create awareness of Whistler and Canada to a targeted audience.
- Three integrated non-traditional partnerships were launched this quarter with North Face, Laterra and TAYA featuring Icefields Parkway, Yukon and Maple Kaido respectively

Media

- Media Activity - March to May 2007.
- Media visits: 14 print media and 4 TV
- Media Fam Tour:
 - Yellowknife Aurora Media Tour
 - Ontario Press Tour /Partner OTMP, Air Canada
 - BC Okanagan Press Tour / Partner: Tourism BC, Air Canada
- CTC invited qualified 6 media to GoMedia.
- Mizuno made shooting with their main character in Vancouver for their "running" brand catalogue, magazine ads, promotion video, and other promotional items.
- A popular novelist whose works have been filmed for movies started to write a series of Canada stories.
- "Maple Magic" promotions was executed by a high end shopping mall, Ebisu

Garden Place, from March 18 to April 10.

- Popular TV travel show "Tabi Salad" filmed in West Coast and Icefields Parkway.
- Gracious magazine featured Maple Kaido along with TAYA promotions.
- TBS Saturday morning show featured Calgary and Banff.
- The Canada-Japan Tourism Exchange Year and Tourism Goodwill ambassadors were announced at a press conference which generated a great media exposure.
- Tourism Goodwill Ambassadors, Asada sisters visited Vancouver and TV Asahi filmed them for their special programs.
- Exposure March to May 2007

	Circulation	Audience Reach	PR Value
March	6 769 168	43 002 569	CAD 10 163 362
April	8 655 690	60 567 070	CAD 7 584 460
May	1 471 340	7 546 700	CAD 3 172 946

Public Relations

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Competitive Environment

- Paradigm Shift Launches Dynamic Packaging - Paradigm Shift Incorporated a travel-related website operator, began selling overseas travel products via dynamic packaging from March 13 when it opened two websites. Dynamic

packaging products are available in the websites "Air & Hotel" that allows consumers to combine air transportation and hotel accommodations, and "ALOHA 7," a website exclusive to Hawaii travel. The Air & Hotel site includes Asia, America/Canada, Guam/Saipan, Europe, Middle East and Africa.

- H.I.S. Welcomes Higher Pre-tax Profits in First Quarter - H.I.S. started off its new fiscal year with a strong showing by posting a 7.9% rise in consolidated pre-tax profits in the first quarter (November 2006-January 2007) to 1.57 billion yen.
- Slow Start for Dynamic Packaging at JTB - Since its start on Feb. 20, 2007, sales of dynamic packaging of overseas travel at JTB Corp. have not caught on as fast as the company expected, partly due to a system malfunction occurring immediately following the product launch.
- Thailand-Japan Year of Exchange Highlights 2007, Amazing Thailand Reintroduced - Coinciding with the re-introduction of the highly popular "Amazing Thailand" campaign launched earlier this year, Thailand is focusing efforts on the 120th anniversary of Thailand-Japan Diplomatic Relations throughout 2007.
- South Africa Poised for Higher Numbers in 2007, First-time Products to be Introduced - Having welcomed some 17.24% more Japanese visitors in 2006, South African Tourism (SAT) is embarking on boosting the number to 35,000 by unveiling a wider range of tourism products in 2007.
- New Zealand Targets Women Via Top Magazine, 'Ultimate Travel to New Zealand Project' - Targeting women in their 20s to 40s, Tourism New Zealand and Air New Zealand (NZ) have jointly opened a special section in the website of "verita," a top women's magazine.
- NTA Sets Sales via Mobile Phone at 1 Billion Yen, Targets Youth, Leisure Markets With 'au Travel' - Nippon Travel Agency (NTA) has targeted 1 billion yen in sales of tours purchased through mobile telephones in fiscal 2007 (January-December) -- a three-fold increase from fiscal 2006. Having been offering product information in the booking-capable tour website "au Travel" in KDDI's EZWeb since October 2006, NTA said it is now capable of attracting the youth and women's markets. It added that it plans to develop campaigns

focusing on leisure travel demand as well as corporate travel demand such as same-day hotel booking requests.

- NYC & Co. Opens Japan Office, The New York Convention and Visitors Bureau (NYCVB) -- also known as NYC & Co. -- recently opened its regional promotion office in Japan by signing a public relations and marketing contract with Tsuru Enterprise headed by Kayoko Inoue, president. Explaining that New York is a city that is constantly changing, the new office said it will make significant efforts to boost the city's visibility by using a variety of media including daily press and consumer magazines.
- Galileo Japan Offers Dynamic Packaging Expertise - Galileo Japan K.K. hopes to give travel agencies a helping hand by offering their expertise when it comes to building a foundation for dynamic packaging. Having assisted in completing a dynamic package system for United Airlines' (UA) United Vacations brand, which went into operation in March 2007, Galileo Japan said it plans to ask travel agencies to introduce its system as a new product marketing tool for dynamic packaging.
- R&C Tours to Unveil Dynamic Packaging in October, Products for Hawaii, Micronesia - R&C Tours will introduce dynamic packaging products for its mainstay destinations of Hawaii and Micronesia from October 2007, making what is believed to be the first tour operator to tackle this online effort.
- Rakuten Travel: Sales via Mobile Phones to Snowball - Cellular phones and travel products make the perfect match for sales. That's the word from Koichi Nakamura, vice president, Rakuten Travel, which has watched sales of travel via mobile phones grow. At a travel agency seminar on future online sales through mobile phones held on April 17, Nakamura said the sales ratio of PC terminals vs. mobile phones will soon be reach the 50:50 level because mobile-phone travel demand will exponentially expand in the very near future.
- China on Record-setting Pace in First Quarter - Despite a minor dip in arrivals in February, China welcomed a record number of Japanese visitors in the first quarter of 2007. According to the China National Tourism Administration (CNTA), the count between January and March grew 13.91% to 968,874, topping the previous first quarter figure of 901,089 set in 2005.

- E-commerce at JTB Jumps 18% to 85.8 Billion Yen - E-commerce-related sales at the JTB Group during fiscal 2006 (April 2006-March 2007) jumped 18.2% from fiscal 2005 to 85.794 billion yen, underscoring the rise of the internet as a major distribution channel of travel products in Japan.
- April Sales Represent 12th Month of Higher Activity - Outbound travel sales in April 2007 at Japan's major Japanese travel agencies rose 6.4% to 200.66 billion yen, marking the 12th consecutive month of higher gains. The favourable increase in sales of outbound travel is attributed to strong demand for popular Asian destinations, including China, Taiwan and Hong Kong, fuelled mainly by active group travel, according to the latest figures compiled by the Ministry of Land, Infrastructure and Transport (MLIT).
- Hawaii Tourism Aims for Quality Over Quantity - Faced with dwindling arrivals from Japan, Hawaii is making efforts to upgrade itself to better compete on a global scale against booming destinations in Asia and Europe.

Future Outlook

- Government Eyes 20 Million Overseas Travelers by 2010 - A Japanese government plan calling for a numerical target to send 20 million Japanese abroad by 2010 as part of the Tourism Nation Promotion Basic Plan is awaiting cabinet approval sometime in late June. Recognizing the significance of promoting international travel by Japanese nationals, which serves to widen international mutual understanding and diplomacy, the government will be working to prompt interregional exchanges and other programs as part of meeting the 20 million goal.