



# Skies between U.S., Japan getting crowded with more competition

The skies between the United States and Japan have become far more crowded in the six months since the two nations agreed to update their bilateral agreement.

American and Delta on the U.S. side and All Nippon Airways (ANA) in Japan have multiplied their number of flights between the two nations.

United and Japan Airlines (JAL) have taken advantage of the new treaty to strategically shift routes in their extensive networks to and from Japan.

For example, JAL quickly followed Northwest's move to launch nonstop service between Tokyo and Las Vegas.

And United more than doubled its Tokyo service with its flagship hub of Chicago, to 14 weekly flights.

## NW shifts flying

Northwest, meanwhile, shifted flights to more profitable flying — suspending its Fukuoka-Honolulu and Chicago-Tokyo service, and halving its twice-daily Osaka-Honolulu service to once a day.

Meanwhile, Northwest introduced service to new markets — Tokyo-Las Vegas, Osaka-Taipai, Detroit-Nagoya and seasonal Tokyo-Anchorage — and increased Los Angeles-Tokyo

service from daily to 10 times weekly.

As of this summer, the burst of additional flights represents a 27% year-over-year increase of airline industry service between Japan and the United States (excluding Guam and Saipan).

In addition, TWA, Continental and Hawaiian Airlines will be permitted to launch service from the United States to Japan over the next year and a half, and American has announced further service expansions. The increase in capacity comes at a time of a marked slowdown in demand.

Japan is seen as the key to any economic turnaround in Asia. However, Japan is having its own problems.

After seven years of almost no growth, the Japanese economy is now formally in recession and consumer demand is slack. The nation's yen has been on a steady slide for three years, dropping from an exchange rate of about 80 to the dollar to about 140. The declining exchange rate means tickets bought in Japan bring in fewer dollars for Northwest.

## Devastating economies

Compounding Northwest's problems in Japan are the devastated Asian economies of Korea,

Thailand and other Pacific Rim nations, many of which have suffered severe currency declines.

The effects of lower demand are exacerbated by these currency declines, which make travel to the United States more expensive — and severely curbs ticket sales in most Asian countries that Northwest serves.

## Pacific is losing money

"The Pacific is not profitable right now for Northwest though performance varies considerably by market," said Mike Levine, executive vice president-marketing and international. "One of my major concerns is how some Asian carriers are redeploying their aircraft from intra-Asian services in response to the economic slowdown," Levine said. "Many Asian carriers have added frequencies to the United States — with lower fares. This has, in turn, lowered overall trans-Pacific yields for Northwest and other U.S. airlines.

"Our traffic numbers, which are high, don't reflect yield numbers. Our yields have softened and continue to be under pressure from weak Asian currencies.

"Tickets sales in the United States to Japan and beyond are up — but they don't offset the



decline in ticket sales and revenues in the local Asian markets. U.S.-Japan traffic has remained quite good but point-of-sale leisure revenue in Japan continues to be weak."

## Currency instability

"Because Japan's shaky economy has weakened travel further in the region, increased regional currency instability is likely in the coming 12 months,

and the Asian slump 'could be steeper and more widespread than first expected,'" the Aviation Daily quoted from a new Salomon Smith Barney report. "The halt in Japanese out-bound leisure travel is squeezing the money flow to several carriers that have depended on this business ..."

"Annual passenger capacity growth will drop from 5.9% last year to 3.4% this year and to 2.5% in 1999, Salomon Smith Barney

## Obuchi, Japan's new prime minister, lacks strong support as crisis grows

Keizo Obuchi comes into his new job as prime minister of Japan with high demands and low expectations.

*Asahi Shimbun*, Japan's equivalent to *The Wall Street Journal*, described Obuchi's election as, "A boring end to a bad mystery novel."

*The International Herald Tribune* said Obuchi's "rise to the top comes amid growing

anxiety that unless Tokyo adopts radical new policies, it is risking the unthinkable — a financial collapse that could lead to depression in Japan and grave economic consequences worldwide."

*USA Today* reported that Obuchi "is widely perceived as a man who lacks the kind of leadership many Japanese say is needed to lift their economy

out of its worst recession since the end of World War II."

And London's BBC ran a story headlined, "Thumbs down for Japan's new prime minister, the yen is expected to weaken further."

World markets reacted nervously to Obuchi's selection as prime minister. On the day after his election by the ruling Liberal Democratic Party, the Japanese

stock market and yen fell against the dollar. In Hong Kong, the Hang Seng index fell.

However, Obuchi selected veteran politician Kiichi Miyazawa to be Japan's next finance minister. Miyazawa is a former prime minister and finance minister. Many consider the finance minister to be more important than prime minister in addressing the nation's economic

issues.

Japan, the world's second largest economy is formally in a recession and has been limping along for about six years with almost no growth.

In related news, 3M Co., said it would cut 4,000 jobs because of the Asia slowdown.

Obuchi has vowed to "do whatever it takes" to revive Japan's troubled economy.



Northwest, the largest U.S. airline to operate at Osaka's Kansai International Airport, is getting more competition there.



# Northwest juggles assets for competitive edge in Japan

The U.S.-Japan bilateral aviation agreement that was reached Jan. 31, while short of open skies, greatly opened the way for more flying by U.S. and Japanese airlines.

Under the old treaty, Northwest, United and Japan Airlines enjoyed "incumbent" status that gave them the lion's share of the service between the United States and Japan. In addition, Northwest and United were the only U.S. airlines that had the right to offer continued service beyond Japan to other points in Asia.

The treaty raised American, Delta and other U.S. airlines from the level of token competitors, at best, to nearly full competitors between the two nations. These airlines, however, are still denied the beyond rights that Northwest and United not only retained but have seen expanded.

In Japan, the agreement elevated All Nippon Airways to incumbent status, identical to Japan Airlines (JAL), United and Northwest.

With 316 weekly slots (take-off and landing positions) at Tokyo's Narita Airport, Northwest is well positioned to take advantage of Asia route opportunities the new treaty offers. Northwest's slot portfolio (which is protected from being reduced) is the largest among foreign carriers at Narita and is second only to JAL, the country's flag carrier.

"But we have to find profitable opportunities for flights using these slots and those opportuni-

ties are scarce in the current environment," said Phil Haan, senior vice president-international. "With reduced revenue opportunity, our historic position also requires a renewed focus on costs, and we have a major re-engineering effort underway in the Pacific."

The new treaty has opened the doors to more competition, but it also offers more flexibility for Northwest.

"Northwest has used its new benefits as an 'incumbent carrier' under the new bilateral agreement to re-deploy aircraft from severely impacted to more attractive markets," said John Dasburg, president and chief executive officer. "This flexibility and the ability to identify new route opportunities are key assets in the generally weak economic climate of Asia. In this dynamic business, airlines serving Asia must adapt their routes to the new market realities."

Northwest's Pacific capacity is up slightly year over year, but much less than originally planned. While some Asian airlines have withdrawn from markets and parked their aircraft, Northwest has redeployed its assets to other routes as traffic slowed and competition — and capacity — to Japan increased. In addition to suspending some service to Japan, Northwest also eliminated its Detroit-Seoul and Seattle-Hong Kong service, while increasing its Detroit-Beijing service from three flights weekly to five and dou-

bling its weekly Tokyo-Shanghai service to twice a week.

Northwest's new Osaka-Taipci service is an example of using bilateral flexibility to improve profitability in a changed Pacific market, said Mike Levine, executive vice president-marketing and international.

"Under the former agreement," he said, "we couldn't easily start new intra-Asia service. Since Taiwan has remained relatively unscathed by Asia's economic problems, it makes sense to use the new flexibility to move the DC-10 used on the over-served Osaka-Honolulu route to Osaka-Taipci.

"Another example of Northwest's route restructuring is how we took the 747-400 we operated three times weekly between Detroit and Seoul and reallocated it to Detroit-Nagoya. The route now links two of the world's largest automobile manufacturing centers. In short, Northwest can now move capacity to where the consumers want it."

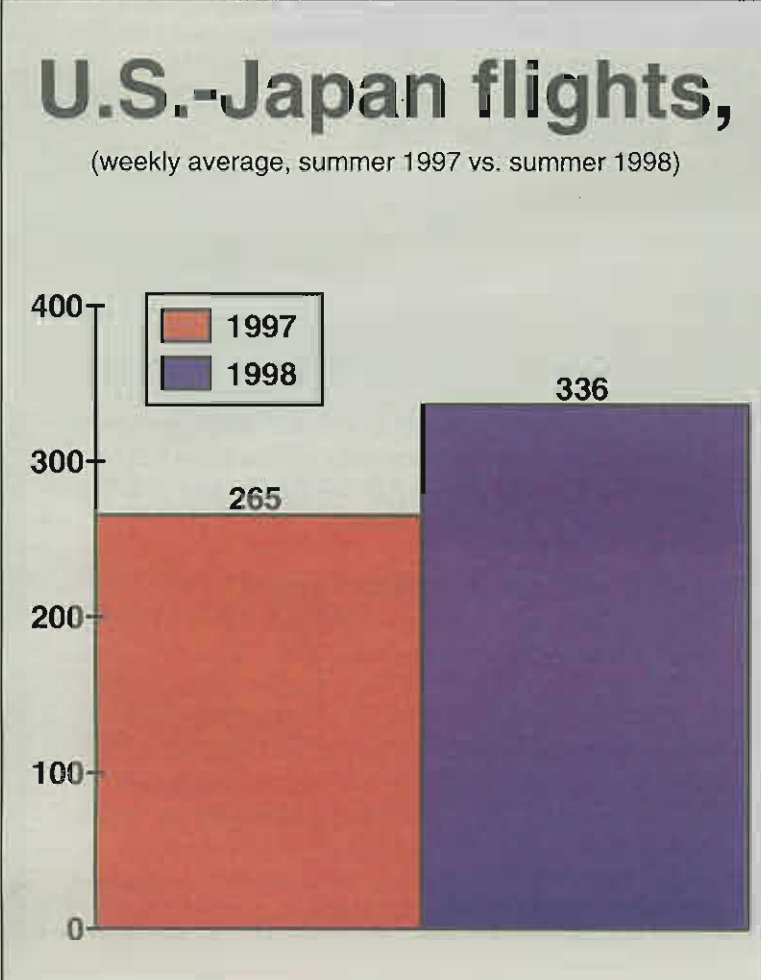
Northwest supports some of its Japan service through its partnership with Japan Air System (JAS). The two partner airlines feature schedule coordination at Osaka's Kansai International Airport and cooperative frequent flyer plans.

The Northwest/JAS frequent flyer program is the only such agreement between a U.S. and Japanese carrier that allows flight mileage to be earned and redeemed on a Japanese domestic service.



said, and continued excessive discounting is weakening yields and slowing airline recovery," the Aviation Daily reported. "Asian carrier fleet growth is declining, but not as fast as traffic."  
 The report further stated that continued growth by Singapore Airlines, Cathay Pacific and Qantas could have "major short-term ramifications."  
 The report noted that China is the only market that is expected to

receive more Japanese tourists. Phil Haan, senior vice president-international, noted that Northwest has a comprehensive plan for dealing with the Asian crisis. The plan calls for, among other things:  
 • Systemwide product improvements targeted for Asia.  
 • Marketing and other organizational refinements.  
 • Schedule changes in Asia, as noted above.



On hand in Anchorage to greet the first Japanese customers from Northwest's inaugural flight from Tokyo were some Alaskan mascots — a bear, a moose and a bald eagle.