

# REPORT OF THE SECRETARY GENERAL TO THE 38<sup>TH</sup> ANNUAL GENERAL ASSEMBLY

Mr. President,

Distinguished Guests,

Ladies and Gentlemen ...

Welcome, once again, to the 38<sup>th</sup> Annual General Assembly of the African Airlines Association.

Before proceeding with my report, I wish to express my appreciation and gratitude to all the industry Guest Speakers, who have actually enriched us with eloquent and documented communications on the industry issues and challenges.

Mr. President, allow me now to present the Annual Report of the Association since the last AGA held in Sun City, South Africa. The report will cover the following:

- a. The 2005 traffic and financial results
- b. New air service developments on the continent
- c. AFRAA's supporting actions and contributions

## **A. 2005 TRAFFIC AND FINANCIAL RESULTS**

### **Highlights**

Traffic figures for African airlines has been rising in 2004 and 2005 on the back of a more robust world economic outlook and growing African economies. In 2005, African carriers transported, in total, over 38.5 million passengers on domestic, within Africa and international routes, an increase of 12% over 2004.

Passenger load factors at 66% were the highest in the past five years but this is still below world average, indicating the need to improve efficiency in the use of available capacity by African carriers. Freight traffic registered strong growth with 20% increase being registered in 2005 over 2004.

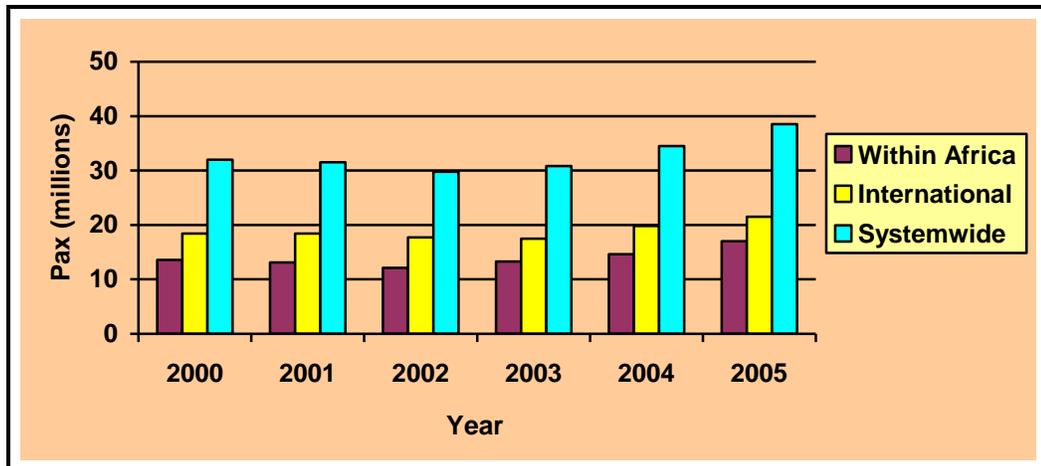
Nonetheless, most of the airlines on the continent made a net loss in 2005. This shows the need to translate the growing traffic figures into profit through better yield and revenue management and effective cost reduction strategies.

### **1. Passengers Carried**

#### **a. Scheduled Passenger Traffic**

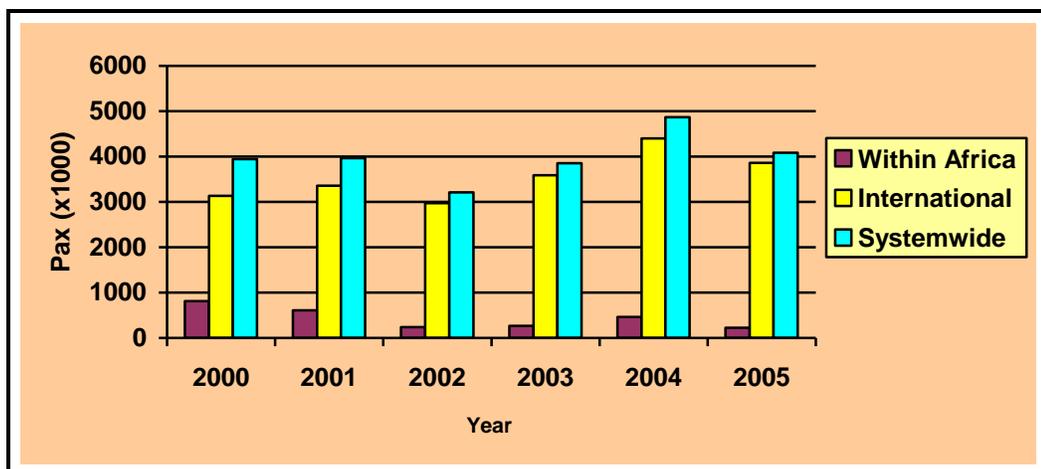
Passenger traffic numbers originating and ending on the continent including domestic traffic was 16.9 million, a large 15.6% rise from 2004. This is well above world

average growth rates indicating the impact of the growing African network arising from the efforts of various airlines including Afriqiyah Airways, Royal Air Maroc, Ethiopian Airlines, Kenya Airways, EgyptAir, South African Airways, Air Senegal International, among others. These airlines are taking advantage of the opening up of African skies under the aegis of the Yamoussoukro Decision. There is potential for much higher growth rates if fare levels are reduced to make them affordable to more travelers on the continent. Airports and air navigation service providers need to play their part to reduce the generally high charges and taxes so as to spur the growth of traffic on the continent.



International traffic from Africa to the rest of the world grew by 8.7% in 2005 over 2004. Most of the traffic is to Europe followed by traffic to the Middle East.

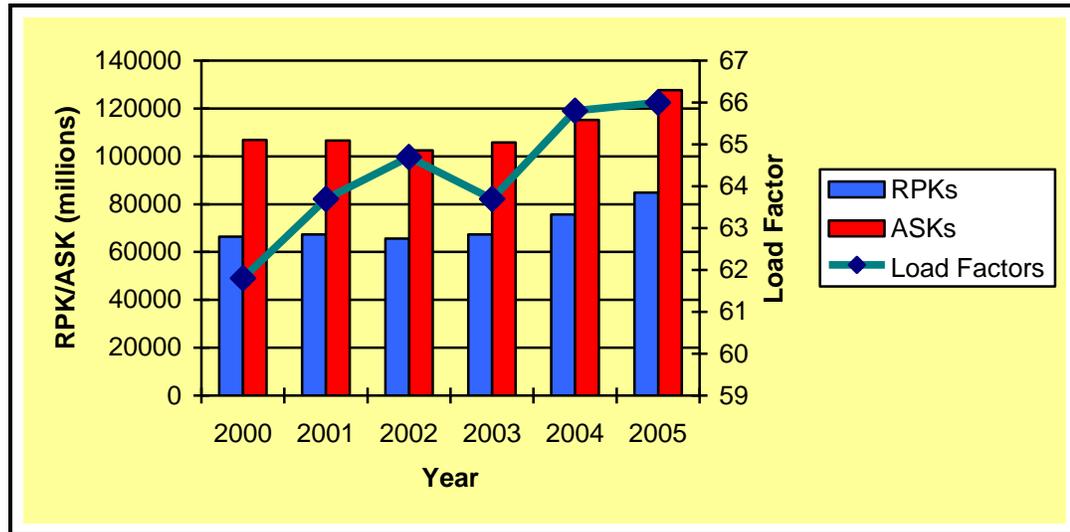
#### b. Non-Scheduled Passenger Traffic



Non-scheduled traffic account for a relatively small proportion of all traffic from Africa. The number of people carried on these flights has been fluctuating over the years with 2005 registering a drop of 16% from 2004. Most of the non-scheduled flights involve traffic with respect to pilgrimage to holy places in Saudi Arabia.

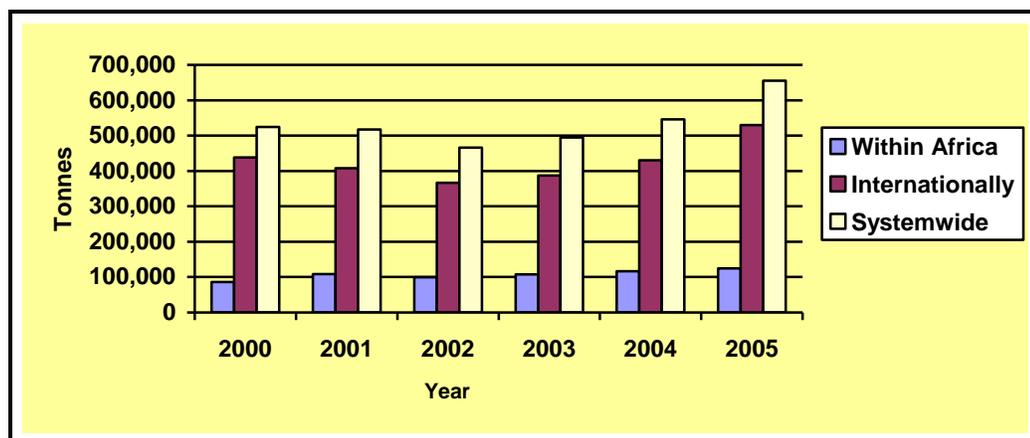
## 2. RPKs/ASKs/ and Passenger Load Factors

Passenger traffic in 2005 in terms of Revenue Passenger Kilometers systemwide increased significantly by 12% to 84.8 billion. The capacity in terms of available seat kilometers (ASKs) was about 127.6 billion, an increase of 10.8% from 2004. The passenger load factor increased slightly from 65.8% to 66%, the highest in the past five years.



## 3. Freight

The tonnage of freight from Africa into Africa, and the rest of the world has been increasing steadily since 2002. In 2005, freight traffic grew by 20% over 2004. This shows a growing market for those interested in establishing cargo operations on the continent.



Source: ICAO

Most of the growth is in international freight market as shown in the figure although domestic and within Africa also registered robust growth of about 8% over 2004. This positive development reflects the general economic upturn on the African continent.

Furthermore, we ought to draw the following conclusions:

- The intra-African market has a tremendous potential for growth as the general African economy is steadily growing at an average rate of 5% and a new middle-class of potential travelers is progressively emerging.
- African airlines should take the opportunity to enlarge their intra-African network, create new incentives for traveling that include low fares and package products.
- We ought to look East. The world business development and trade epicenter seems to be shifting to Asia. African airlines should also follow the compass and extend their route network to Asia so as to pave way for added trade for our countries and, at the same time, retrieve part of the lost traffic that transit, today, through Europe toward the East and Far East.
- Cargo is a business sector in which African airlines need to get more involved. Cheap bargains on the Asian market and the American AGOA are calling for action in this direction.

#### **4. FINANCIAL PERFORMANCE**

Overall, African airlines generated operating revenues of US\$ 9.4 billion, in 2005, up from US\$ 8.46 in 2004. But in line with the worldwide industry that made a net loss of 3.2 billion US Dollars in 2005, African airlines made operating and net losses in 2005 on the back of steep rises in the cost of fuel, intense competition particularly from airlines from outside Africa resulting in depressed yields. Despite this, several major airlines made significant profits including Air Mauritius, Kenya Airways and Ethiopian Airlines whose profit ranked from 22 to 67 million US Dollars.

#### **5. FLEET 2005**

##### **5.1 Existing Fleet**

The African airline fleet in service stood at 639 aircraft as at the end of September 2006. In addition, 84 aircraft were on order, indicating concerted efforts by the more successful airlines to modernize their fleets and benefit from operational economies of the more modern aircraft.

##### **5.2 Forecast on African Industry Fleet Demand**

Boeing's current outlook provides that the African market will demand 430 new airplane deliveries in 20 years to come, from 2006 to 2025, at a budget of 40 billion dollars.

Airbus forecast from 2004 to 2023 estimates the need at about 641 new airplanes at a budget of 60 billion dollars.

The obvious deduction from this data is that the fleet renewal challenge is extremely big and the continent profit level cannot allow African airlines to afford such acquisitions.

Innovative solutions will be required such as funding through development banks, a special Airline Fund Initiative for Africa (AFIFA) as proposed by AFRAA on creation of an African leasing company to cater for the equipment need of the airline industry.

## **B. NEW DEVELOPMENTS ON THE CONTINENT**

### **i) Intra-African Route Development by African Airlines**

In line with the trend reported last year, African airlines are quickly developing air services across the continent as shown on the airline network maps displayed.

In 2006, Kenya Airways and Ethiopian Airlines have stretched out their operations to various African cities including Bamako, Dakar, Freetown and Brazzaville. Afriqiyah Airways and Royal Air Maroc have covered all Central and West African destinations. South African Airways have tremendously increased their flight frequency to Dakar (en route to the US) and are now planning to operate daily flights to Lagos and Accra by code-sharing with Virgin Nigeria and Ghana International Airways.

Constant useful references to the Yamoussoukro Decision have helped create a conducive environment for these positive developments.

Within some regional economic communities, the number of flights between some city pairs is impressive, as shown below.

<b>ROUTING</b>	<b>AVERAGE PER DAY</b>	<b>AVERAGE PER WEEK</b>
ACC – LOS	9+	65
ABJ – DKR	3	21
NBO – EBB	5	35
NBO – DAR	5	35
NBO – ADD	2	16
NBO – JNB	3	21
JNB – GBE	9	21
JNB/CPT – WDH/WVB	6	43

The full implementation of the Yamoussoukro Decision, as the Club of Ready and Willing States (CREW) proposed by AFRAA, will definitely enhance these liberalization benefits across the continent.

## **ii) Foreign Carrier Threat**

In addition to the major European carriers that are already dominating African skies on international routes, Emirates and Qatar Airways have officially targeted Africa as their next area of development. They are fast developing on African markets putting up fierce competition and pressure on local carriers.

The poaching of qualified staff is another devastating competition tool that is being used to the detriment of African airlines that can scarcely offer remuneration packages of the same attractiveness.

From the USA, Delta Airlines has also started encroaching into Africa.

The overall message seems very clear. African markets are gold mines that African airlines have, so far, not been able to exploit fully due to their relatively small sizes and the fragmented industry structure.

The South-South cooperation policy of Royal Air Maroc and the code-share dynamic offers of South African Airways should therefore be looked at as part of the solutions.

In summary, competition is threatening to strangle most African airlines out of business. Worst of all, in the regions of almost total industry vacuum such as West and Central Africa, it might soon be too late to form any new international airlines with serious potential to survive as foreign carriers are likely to take total possession of the market. The poor performance of most of the existing small-sized carriers clearly indicates that only multinational or cross-border investment airlines could be sustainable competitive solutions.

It is for this reason that AFRAA hailed the project of Air Cemac and gives its blessing to the private shareholder multinational airline project, promoted by SPCAR, in these two regions under the leadership of President Gervais Koffi Djondo, founder of ECOBANK and Siphon Mseleku, Chief Executive Officer of SADC Chambers of Commerce. It is encouraging to note that the ECOWAS Secretariat has signed, with them, a Memorandum of Understanding, where it pledged to give all required political support.

May the major carriers of the continent, here present, choose to partner up with them to make another African success story through South-South cooperation.

## **C. AFRAA's SUPPORTING ACTIONS AND CONTRIBUTIONS**

Mr. President, the common need of all African airlines is access to affordable funding to finance their various action plans and development projects.

In addition, for many of the small and medium sized airlines of the continent, survival is the paramount issue.

In this context, though we have all embraced IATA's e-ticket, STB and IOSA programmes as absolute "do or die actions", cost factors are delaying their implementation with many small and medium sized airlines.

It is against this background that in 2006 the African Airlines Association defined and implemented its action plan in compliance with your resolution as follows:

- Assistance to member airlines to meet the e-ticket implementation deadline of December 2007 at an affordable cost
- Organization of training courses for African airlines on all programmes that are prerequisites for successful IOSA audit test
- Search for development funding to finance the industry activities, restructuring and investments.

Mr. President, the Association, in 2006, has negotiated discounted group rates for its membership with all e-ticket service providers, namely SITA, Amadeus and Sabre. It is estimated that these preferential tariffs will save 2 million dollars for African airlines.

During the year 2006, almost all the training activities of AFRAA have been focused on IOSA training requirements in order to facilitate certification of African carriers. In cooperation with IATF and other industry partners such as Pratt & Whitney and CFM International, AFRAA dispensed free training courses on the following subjects:

- Human Factors in Aircraft Maintenance
- Crew Resource Management
- Aircraft Maintenance and Engineering Management
- Management of Airside Safety
- Flight Operations Management
- Airline Security Operations

These courses are part and parcel of IOSA audit preparations. Together with all the other skills and managerial courses conducted by AFRAA, these training programmes have saved around 700,000 US Dollars for member airlines.

Because cost factors might cause delay in African airlines' implementation of e-ticketing and IOSA programmes, AFRAA has applied for a grant of 1.5 million dollars to assist small and medium sized airlines that are in need of such funding. CDE Pro-invest, an EU/ACP Fund, is currently processing this grant application with the objective of disbursing it early next year.

Concerning IOSA in particular, since the audit is set to be renewed every two years, AFRAA has taken the option of training all member airlines' internal auditors whose duty will be to keep the airline's safety on track and prepare for each future audit.

## **CONCLUSION**

Mr. Chairman, in conclusion, I would like to state that the traffic levels being carried by our airlines are improving. However, there are various challenges that ought to be addressed. They include intense competition, steep rises in the price of fuel, lack of consolidation, under developed ICT infrastructure and brain drain. These challenges highlight the need for

African airlines to come up with innovative and imaginative strategies to ensure that the industry survives the increasing fierce competition introduced by globalization.

In the coming 5 years, the growth rate of the African airline industry is expected to be 5.1%, above world average (4.8%) ranking immediately after Middle East (6.9%) and Asia Pacific (5.7%). This presents opportunities for African carriers, particularly if they simplify their business model and expand their market base across the continent by offering lower fares. Increased usage of ICT tools will greatly facilitate the simplification of the business and the lowering of operating costs.

Towards this end, in the coming year, AFRAA will provide leadership and drive for the industry to achieve the following objectives:

- Effective implementation of the Yamoussoukro Decision and market liberalization in Africa through the initiative of the Club of the Ready and Willing States (CREW)
- Provision of development funding to African Airlines with active support from the African Union, NEPAD and ADB.
- Financial assistance through CDE-Proinvest to member airlines, particularly the medium and small sized carriers for timely implementation of e-ticketing before the deadline of 31 December 2007
- Promotion of safety enhancement policies. These include providing CDE-Proinvest financing to airlines in need, training internal safety auditors for all member airlines, visiting and advising African countries in which frequent plane accidents are tarnishing the whole African industry image

Mr. Chairman, Ladies and Gentlemen, with determination and great support of all its membership, AFRAA can definitely drive home this agenda.

I thank you for your attentive listening and visible commitment.