

# **REPORT OF THE SECRETARY GENERAL TO THE 39<sup>TH</sup> ANNUAL GENERAL ASSEMBLY**

## **INTRODUCTION**

Below is the report of the African Airlines Association's member airlines performance report in 2006. The report also highlights the general trend of the industry in Africa and makes suggestions on the way forward. The contents include:

- 2006 traffic and financial performance
- Fleet modernisation
- Activities and achievements of the Secretariat
- Air law, regulatory and aero-political developments
- Airline joint projects
- Progress on E-ticketing implementation
- Progress on IOSA
- EASA training curriculum

## **Highlights of the Report**

Generally African airlines have performed better in 2006 than the year before. Traffic carried went up over 7% and this trend is continuing in 2007.

Many of the continent's carriers are investing in new and modern equipment. A total of 156 aircraft are currently on order by African airlines. On delivery, this will significantly improve their performance; lower operating costs particularly on fuel expenses and thereby improve the bottom-line.

A lot of new routes and markets were opened across the continent by a couple of our airlines. Additional frequencies have also been added on some city-pairs thus improving connectivity, easing travel between destinations and reducing travel time.

The growing traffic and high yields on the continent continue to attract more foreign airlines. Today, some airlines from the Middle East and Asia Pacific have started operations into some of the dense markets. Two North

American airlines have also started operations to the continent. The European and Gulf carriers have either increased their frequencies to current destinations or have commenced new routes. The result of all this is that competition is growing and will continue to grow in the foreseeable future.

For the first time, some African airlines are joining the major global alliance groups. South African Airways is a full member of the Star alliance in 2006, Kenya Airways joined the Skyteam and EgyptAir recently accepted an invitation to join the Star Alliance. Ethiopian Airlines may soon choose a global alliance partner. Our airlines are becoming global players.

With the exception of one of our major airline currently going through comprehensive restructuring, our airlines made profits in 2006 despite the high operating costs largely due to the unprecedented fuel prices.

Safety remains our number one challenge, but a lot of work continues to be done in this area. AFRAA together with the International Airlines Training Fund (IATF) and the EU, continue to provide necessary training for the airlines in the areas of safety to prepare them for IOSA. 12 African airlines are now on the IOSA register. All AFRAA member airlines have gone through the Gap analysis and have contracted with one of the accredited IOSA firms to undergo the audit. We will continue to support your efforts at improving safety. The ICAO safety Road Map is a step in the right direction and we will support its implementation.

In a technologically difficult environment such as ours, airlines have made great progress in E-ticketing implementation. 25 AFRAA member airlines now issue e-tickets of which 17 have concluded over 135 interline e-ticketing agreements with partners worldwide. With the exception of three airlines which have no plans for e-ticketing, all AFRAA airlines have plans in place, including a date for the issue of first e-ticket through the BSP. We are certain these airlines will meet the May 2008 deadline. Our challenge with regards to e-ticketing is gaining acceptance for interline partnership from the big foreign airlines.

To enable African airlines continue in this path of progress and recapture part of its lost market share, we need governments support and commitment to fully liberalise the internal African market. This will stimulate regional and domestic traffic growth and create a big home-base market for our intercontinental airlines.

Governments should also create an environment that supports our airlines working together. Airlines will have to merge, consolidate and form alliances to improve their network and market coverage.

The necessary regulatory framework should be established to ensure fair competition among African airlines and in particular between African carriers and their foreign competitors.

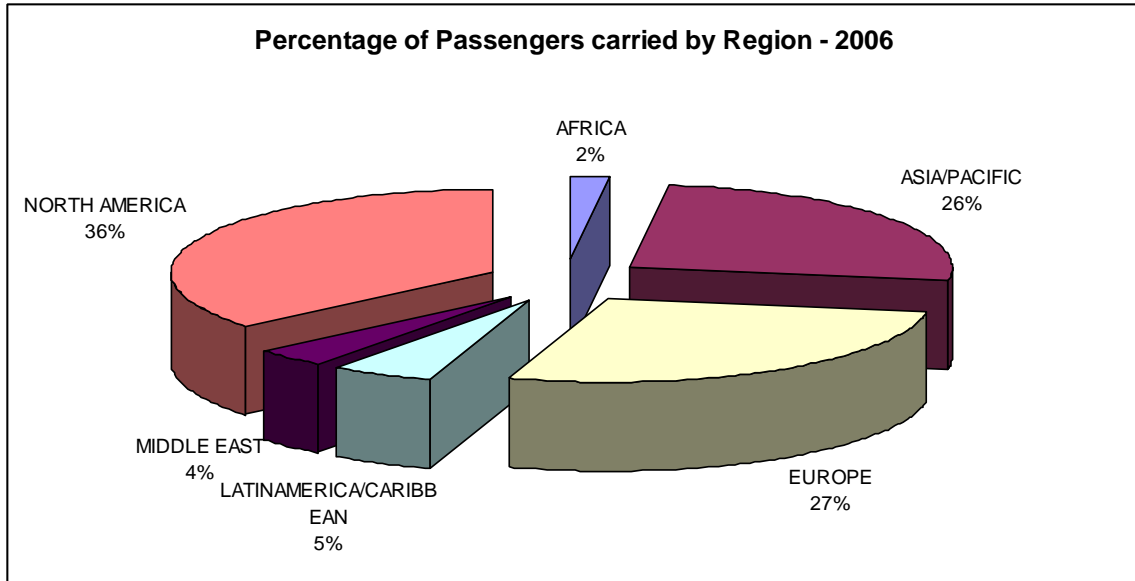
We need a comprehensive air transport external policy to counter-balance the pressure from third countries. African Ministers of Aviation should adopt the draft external policy that has been submitted to them to give impetus to our airlines to re-negotiate air services agreements as a bloc.

To support our airlines fleet renewal drive, governments should ratify the Cape Town Convention.

## **Traffic Performance**

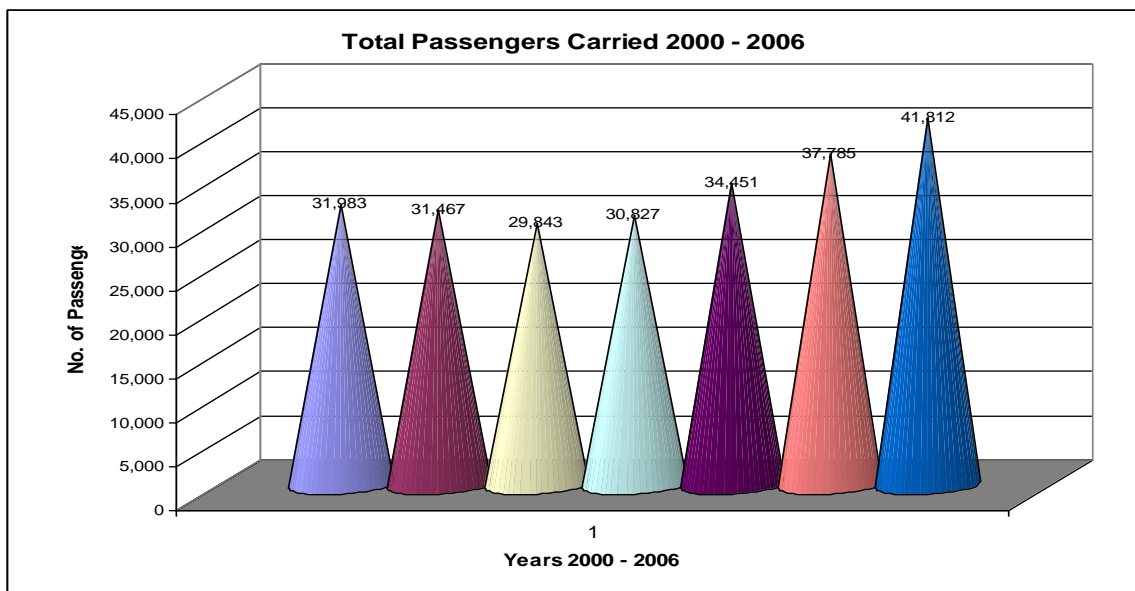
### **Scheduled Passengers Traffic**

Scheduled Passengers carried by air carriers of Africa including charters is 45 million for year 2006, representing 2% of the total passenger carried globally of 2.1 billion. The regional share of passengers carried in 2006 is shown below –



Source: Based on ICAO Statistics

Africa has registered a compound annual growth rate for scheduled passengers carried of 4.6% for the period 2000-2006 which is above the compound annual growth rate of passengers carried for the World (4.1%), i.e. growth shown by Africa carriers was higher than the average of the World on a growing capacity base. Total passengers carried by African airlines (excluding charters) between 2000 and 2006 are shown in the graph below:

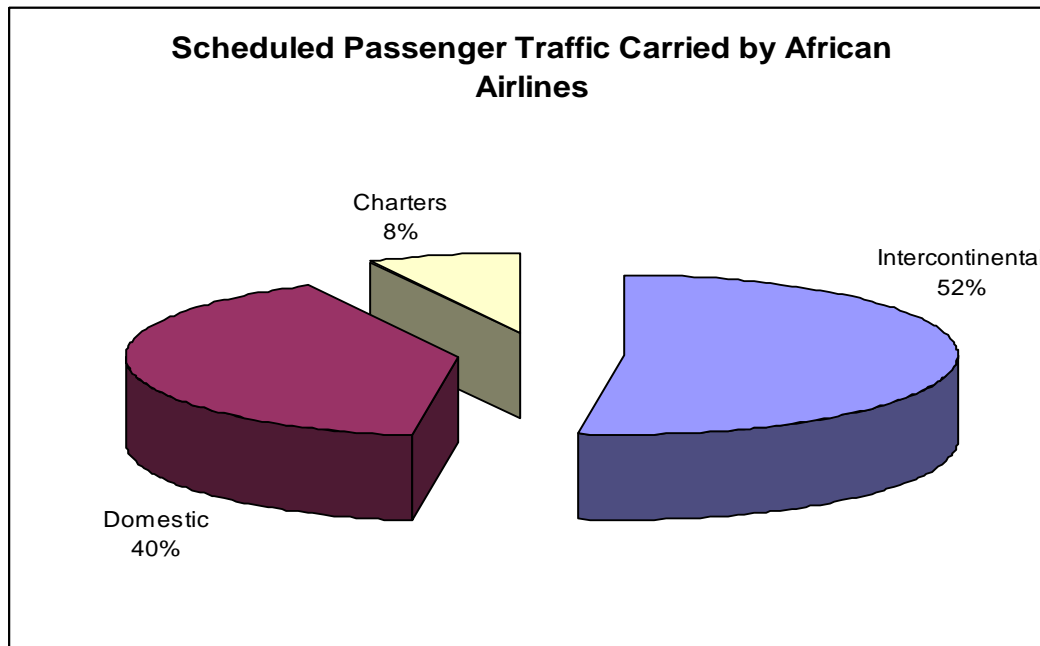


Source: Based on ICAO Statistics

Scheduled passenger traffic (including charters) of African airlines in 2006 was 45,205,500 made up of;

<b>Region</b>	<b>Passengers carried</b>
International traffic	23,647,570
Regional/Domestic traffic	18,163,975
Charters (Domestic/Int'l)	3,393,955

In percentage terms, the passenger distribution in the above three categories for 2006 are as follows:

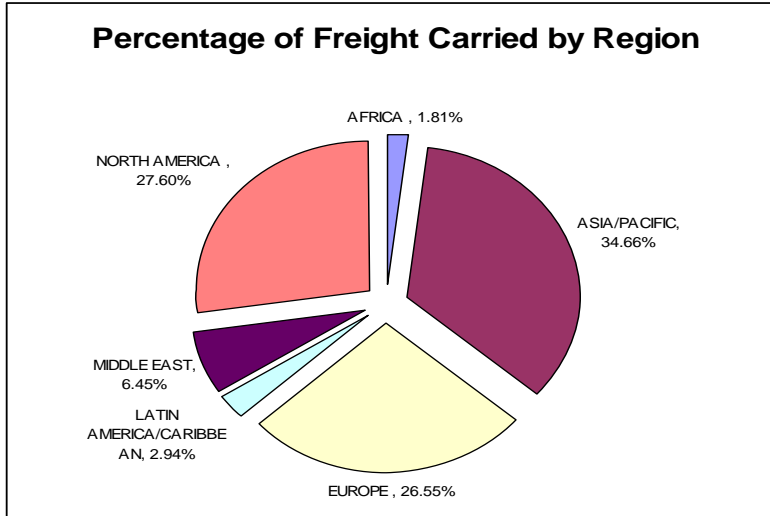


Source: Based on ICAO Statistics

### **Freight carried**

Though freight is increasingly becoming an important component of airlines revenue, scheduled freight carried in terms of freight ton kilometres performed (FTKM) is estimated at only 2,710 millions, representing 1.8% of total FTKM performed by World airlines in 2006. Africa's share of freight traffic compared to other regions had remained static at around 1.6% since

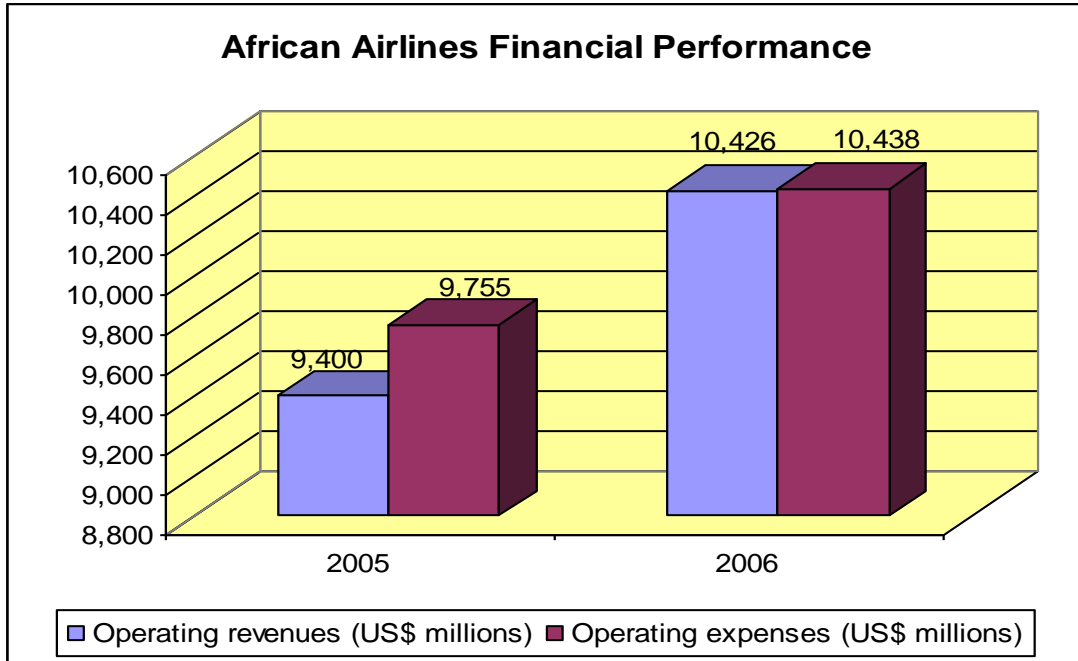
2002 and has in 2006 registered a growth to 1.8% share of the regional traffic, similar to the levels seen in 2000 and 2001. The regional share of FTKM performed is shown in the pie chart below –



Africa has registered a compound annual growth rate for scheduled FTKM performed of 4.2% which is above the global average of 4.0%.

### **Financial Performance**

In terms of financial performance, African airlines total revenue grew by 10.9% in 2006, while operating costs went up by 7%. Overall African airlines made an operating loss of about \$120 million in 2006, but this is a 96.6% improvement over the loss in 2005.



<b>Africa</b>	<b>2005</b>	<b>2006</b>	<b>% change</b>
Operating revenues (US\$ millions)	9,400	10,426	10.9
Operating expenses (US\$ millions)	9,755	10,438	7.0
Operating income (US\$ millions)	-355	-12	96.6
RTKM (thousands)	10,842,660	11,896,605	9.7
ATKM (thousands)	19,761,097	20,552,478	4.0
Yields (Op rev/RTK) US cents	86.7	87.6	1.1
Unit costs (Op exp/ATK) US cents	49.4	50.8	2.9
Break even load factor (%)	56.9%	58.0%	1.8
Overall load factor	54.9%	57.9%	5.5

Source: IATA

Overall, load factors went up in 2006 by 5.5%. Though this load factor achieved (57.9%) is still less than the breakeven load factor of 58% for Africa.

With the exception of South African Airways, which is currently being restructured, all the major airlines on the continent made profit in 2006.

## **Future Outlook**

### ***Medium term***

The real average GDP for the African region is expected to grow around 6% for 2008 and 2009. This will give the impetus for airlines registered in Africa to improve their passenger growth rates from an average of 5.7% achieved for 1996-2006 to an impressive average of 7.1% for the period 2007-2009. The table of medium term growth rates and GDP rates are indicated below –

### Economic growth GDP by region (real average growth rates percent)

Region	Average annual growth (%) 1995-2005	2006	Forecast		
		(%)	2007 (%)	2008 (%)	2009 (%)
Africa	4.2	5.5	6.2	5.8	5.6
Asia/Pacific	4.6	7.1	6.7	6.3	6.2
Europe	2.4	3.7	3.3	3.2	3.1
Middle East	4.4	5.7	5.5	5.5	5
North America	3.1	3.2	2.2	2.8	3
Latin America/ Caribbean	2.9	5.5	4.9	4.2	4.1
<b>World</b>	<b>3.9</b>	<b>5.4</b>	<b>4.9</b>	<b>4.9</b>	<b>4.8</b>

Source – ICAO estimates based on IMF, World Bank, OECD and others.

### Global and Regional Scheduled Passenger Traffic – 1996 to 2009 [passenger-kilometres performed (PKP)]

Region of airline registration	Average annual growth								
	1996 (PKP in billions)	2006 (PKP in billions)	1996-2006 (%)	2007 (PKP in billions)	Annual change (%)	2008 (PKP in billions)	Annual change (%)	2009 (PKP in billions)	Annual change (%)
Africa	53.1	92.3	5.7	99.0	7.3	106.2	7.2	113.6	7.0
Asia/Pacific	614.0	1 044.3	5.5	1 123.7	7.6	1 206.8	7.4	1 292.5	7.1
Europe	609.4	1 084.0	5.9	1 162.0	7.2	1 242.2	6.9	1 320.5	6.3
Middle East	72.2	192.2	10.3	216.2	12.5	243.3	12.5	272.4	12.0
North America	968.5	1 368.9	3.5	1 408.6	2.9	1 450.9	3.0	1 494.4	3.0
Latin America/Caribbean	114.5	158.9	3.3	161.6	1.7	165.6	2.5	170.6	3.0
<b>World</b>	<b>2 431.7</b>	<b>3 940.6</b>	<b>4.9</b>	<b>4 171.2</b>	<b>5.9</b>	<b>4 415.0</b>	<b>5.8</b>	<b>4 664.0</b>	<b>5.6</b>

Source – ICAO estimates based on IMF, World Bank, OECD and others.



## **Long- term till 2025**

Viewed on the basis of route groups, Africa–Europe is expected to grow at 5.6%, Intra-Africa 6% and domestic Africa at 5.4% from 2005-2025.

The outlook till 2025 is expected to show an average annual growth rate of around 5.1% for total scheduled passenger and 5.4% for international passenger traffic higher compared with the 4.6% and 5.3% projected for the World.

Once again, AFRAA is using this forum to appeal to IATA to intervene in ensuring that interlining does not become the preserve of the “big boys”.

## **AFRAA FLEET AND IT’S MODERNISATION**

Total number of aircraft in commercial operation in Africa as of June 2007 is 756 of which 40% is leased. Of this number, 245 are aged over 20 years.

The AFRAA member airlines fleet stood at 478 as of November 2007; comprising 377 jets, 92 turbo propellers, 3 helicopters and 6 aircraft from the former USSR. It is gratifying to note a marked reduction in the number of ageing aircraft from the former USSR in AFRAA member’s fleet and their replacement with more modern types.

What is of interest is that there are currently 154 aircraft on order by AFRAA member airlines up from 84 aircraft on order in 2006. This shows a marked trend of fleet modernization on the continent.

Boeing’s current outlook forecasts that Africa will need 490 airplanes worth USD 50 billion in the period 2006 – 2026. This large increase is echoed by Airbus Global Market Forecast for 283 new aircraft for Africa in the 10 years from 2006 – 2015.

The fleet renewal process presents funding challenges for Africa which requires innovative funding solutions to facilitate the acquisition of the modern, fuel efficient and environmentally friendly aircraft. The African Development Bank and other Regional development Institutions ought to play a leading role. In the meantime, let’s push our governments and parliaments to ratify the Cape Town Convention.

## **ACTIVITIES AND ACHIEVEMENTS OF THE SECRETARIAT DURING 2007**

### **EU Funding**

For the first time ever, AFRAA this year managed to obtain a financial grant from the European Union Commission through Pro-Invest – one of their funding organizations. The grant was to enable AFRAA provide 12 courses to member airlines for free.

AFRAA would like to take this opportunity to express its profound gratitude to the EU Commission, Pro-Invest, for the positive and commendable efforts they are making for the benefit of African organisations. We look forward to continued cooperation and we hope this cooperation will be enhanced to help African airlines pass IOSA audits and meet the E-ticketing requirements of the industry as specified by IATA.

### **Training**

The year 2007 witnessed record achievements for AFRAA in training and human resource development. A record number of 355 airline personnel were trained during the course of the year. This represents more than 50% increase over 2006 during which 234 people were trained.

The various courses provided under the auspices of AFRAA, on its own, or in cooperation with our friends and partners have resulted in airlines saving over 1.2 million US Dollars in training costs through the provision of free courses, courses at concessionary rates or courses conducted in-house at airline premises. AFRAA pledges to redouble its efforts in providing value added training services to member airlines.

### **Peak Performance**

AFRAA has signed a Memorandum of Understanding with a renowned Kenya-based human resource development consultancy firm called Peak Performance. This organisation provides consultancy services and training to enable organisations significantly improve their productivity through highly motivated and inspired people with a positive attitude towards their organisations. The firm has already carried out some widely acclaimed

work with several well known organisations including successful airlines like Kenya Airways and Ethiopian Airlines.

The Chief Executive Officer of Peak Performance is here and will make a presentation at this conference as a way to introduce them to you so that your organisations can take advantage of their world-class expertise for the benefit of your companies.

### **AIR LAW, REGULATORY AND AERO-POLITICAL**

Conducive regulatory and aero-political environment is essential to the healthy growth of our industry and their continued participation in international air transport.

#### **Cape Town Convention and Protocol**

I am happy to report that Africa leads other regions with nine African States out of the nineteen states that have so far ratified the Treaty. A number of African States are preparing to ratify the Treaty early next year.

Report indicates in the last three years airlines of countries that have ratified benefited from EX-Im bank discount by about USD 40 million by virtue of the convention. It is anticipated that African Airlines will be seeking Ex-Im bank financing support for an estimated amount of USD 1.2 Billion in the next three years and the saving if all the States of these airlines ratified is estimated at USD 12 million. In this regard, Nigeria and Ethiopia are among those that have made good bargains since their Governments ratified the convention.

It is also encouraging to note that Export Credit Agencies of the US, Canada, Brazil and Japan in the recently signed new Aircraft Sector Understanding (ASU) agreed to provide 5%-20% discount depending on the credit rating of each airlines of Cape Town Treaty countries. This will extend the discounts on Export Credit financed purchases of aircraft manufactured by other than Boeing.

We commend States that have so far ratified and those which are in the process of ratifying for the tangible support they have given their airlines. We urge other governments to speed up their ratification for their airlines to reap the same benefits.

## **Liberalization**

The implementation of YD is essential to the survival of African airlines as international operators will be at stake. It is clear that all the 53 African States may not be able to fully open-up at the same time. That is why AFRAA proposed in 2006 the establishment of the Club of the Ready and Willing States that will voluntarily take the lead and implement the Decision.

AFRAA's effort in this regard is bearing fruit. The Minister of State of Civil Aviation of Nigeria in his recent visit to AFRAA has agreed to take the lead and call the meeting of Ministers of countries that have expressed strong interest in the initiatives and are ready to launch the Club.

Another positive development relating to YD is the progress made towards the establishment of the long awaited Executing Agency of the YD. The 3<sup>rd</sup> Conference of African Ministers responsible for Air Transport held in Addis Ababa in May 2007 agreed to confer AFCAC with the duties and powers of the Executing Agency. We congratulate the AU and AFCAC on the good work they have done so far.

## **Common African Negotiating Guideline with EU Member Countries**

The 3<sup>rd</sup> Conference of African Ministers of Transport failed to reach consensus to adopt a Common African position for negotiation between AU and EU member countries. The Negotiating Guidelines which were prepared by experts under the auspices of the African Union with the active support and participation of AFRAA and AFCAC is intended to strengthen the negotiating position of the African countries vis a vis the EU member countries and ensure a balance of benefits to the African Carriers.

AFRAA will continue to play an active role and is calling on its member airlines to urge their respective governments adopt the common African position.

## **AFRAA, AFCAC AND ACI AFRICA JOINT ACTION**

The three major stakeholders have recently agreed to cooperate and work together in order to speed-up the implementation of the YD, enhance safety

and security, facilitate the movement of goods and passengers. In order to facilitate their joint efforts the three associations have agreed to create a Joint Council consisting of the Heads of the secretariat of the three organizations. A memorandum of understanding to that effect is planned to be signed by the Association following the 39<sup>th</sup> AGA. A resolution endorsing the partnership arrangement will be tabled for the adoption by the Assembly. In addition a joint communiqué to that effect will be issued by the parties during the AGA.

## **AIRLINE JOINT PROJECTS**

### **Joint Fuel Purchase**

The airline industry worldwide is currently reeling from ever escalating fuel prices which are adversely affecting the viability of airlines worldwide including AFRAA member airlines. In light of this, the AFRAA Executive Committee resolved to resuscitate the joint fuel purchase project as one way to reduce airline operating costs. Currently, fuel costs constitute the highest proportion of operating costs ranging from 25 to sometimes over 40 percent of the operating costs.

To facilitate the launch of the project, assistance was sought from representatives of Afriqiyah Airways and Egyptair so that the AFRAA Joint Fuel Purchase Committee benefits from the successful experience of the Arab Air Carriers in this context.

Mr. President, I am pleased to report that so far the discussions have been positive and we expect that by early next year, the joint fuel purchase project will be launched and we hope that this will bear fruit for our member airlines. Once the project is up and running, we plan to get the rest of the airlines who are not currently on the selected list to also join in.

I will like to extend our special appreciation to the Chairman of Afriqiya Airways who is also the Chairman of the Executive Committee and the Chairman of EgyptAir for their support by availing their experts to help start the project.

### **Joint Ground Handling**

The Executive Committee, at its last meeting held in Nairobi on 17th October 2007 decided to extend joint projects to joint ground handling in addition to joint fuel purchase.

- In line with this, some airlines were selected to be part of the core group of carriers. The intention is to launch the project with a first meeting in Nairobi in February 2008.

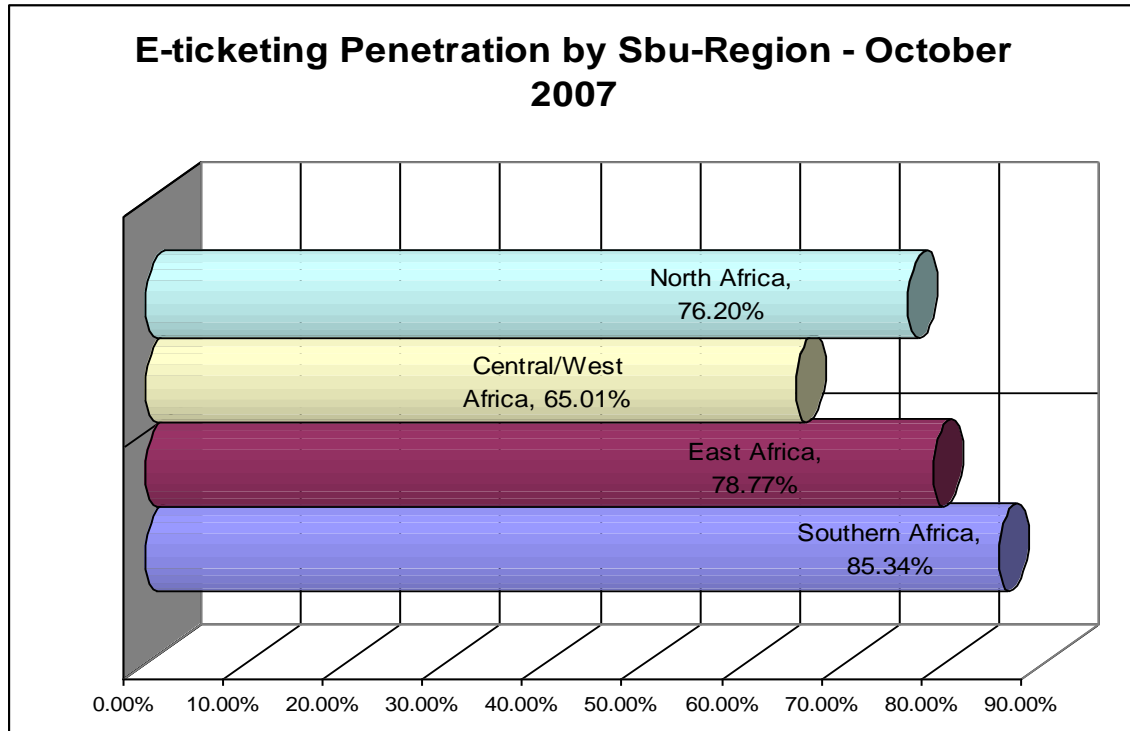
Once the project is up and running, other like-minded airlines will join. However, so far, only two airlines, namely Virgin Nigeria Airways and Ethiopian Airlines have sent nominations. **I urge all the above airlines to send their nominations as soon as possible.**

## **PROGRESS ON E-TICKETING IMPLEMENTATION**

### **Africa Penetration**

Globally, e-ticketing penetration (measured by BSP tickets issued) stands at 88.54% as at October 2007. Africa attained a penetration of 81.81% over the same period. The breakdown by sub-region is as follows:

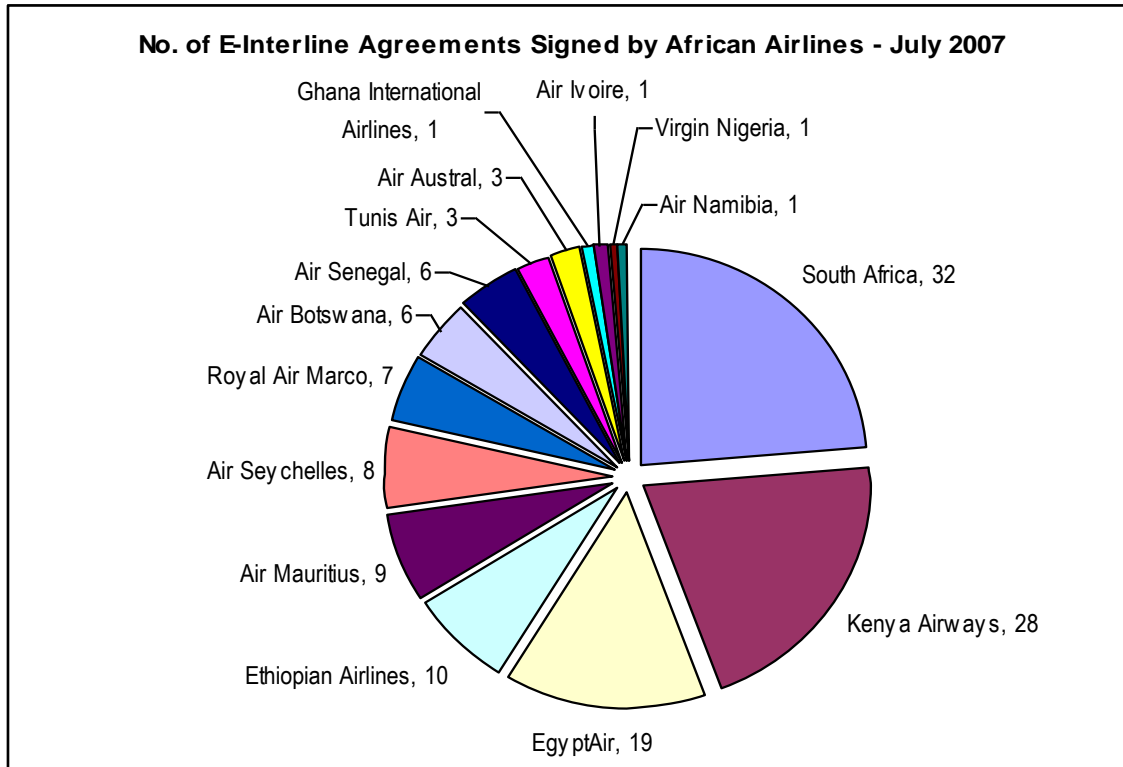
Southern Africa	85.34%
East Africa	78.77%
Central/West Africa	65.01%
North Africa	76.20%



A total of 25 AFRAA member airlines in Africa issue e-tickets via the BSP. Another 7 have plans to issue e-tickets including a date for issue of first e-ticket in IATA BSP. Hopefully, this will bring the number of AFRAA member airlines issuing e-tickets to 32 by the deadline of May 2008.

Some AFRAA member airlines may not meet the deadline. AFRAA will provide additional support to non-e-ticketing member airlines to enable them implement e-ticketing and continue participation in international traffic before the deadline.

In terms of interline e-ticketing, 17 African airlines have concluded a total of 135 IET agreements with partners worldwide. The breakdown is as follows:



## **The Challenge**

The biggest challenge for African airlines presently is interlining. 19 African airlines (including non-AFRAA members) issuing e-tickets today have not signed a single IET agreement. The reason is simple; their bigger interline partners considers their IET volumes too small and commercially insignificant and are refusing to e-interline with them. AFRAA has requested IATA to uphold its responsibility to all member airlines and ensure that those willing to enter into IET agreements are unduly marginalized and their interline traffic taken over by global carriers under the guise of insignificance.

## **PROGRESS ON IOSA**

So far, 12 African airlines are IOSA certified. All AFRAA member airlines that are not yet IOSA certified have undergone gap analysis and have contracted for IOSA audits with the IATA Approved Auditing Organisations before the end of 2007.

During 2006, AFRAA conducted 12 safety, quality and security courses from which 220 participants from various airlines benefited. During 2007, a



further 135 people benefited from such courses. This mammoth achievement was made thanks to the assistance we continue to receive from the International Airline Training Fund and, this year, the generous grant received from the European Union through a consultancy firm, Pro-Invest.

### **EASA TRAINING CURRICULUM**

A number of African airlines are or intend, in the future, to train and certify their maintenance personnel based on the European Aviation Safety Agency (EASA) Standards. In some cases, those airlines that lease aircraft from certain countries are required to ensure that these aircraft are maintained according to EASA standards. To facilitate cooperation among AFRAA member airlines using or intending to train and certify their staff in accordance with the EASA Standards, the AFRAA Secretariat developed a training curriculum for use by the concerned airlines. The curriculum will be presented to this AGA for approval.

### **NEW MEMBERS AND PARTNERS**

In 2007, AFRAA admitted into its membership the following airlines:

- Virgin Nigeria
- Aero Contractors
- Toumai Air Tchad
- Nasair

In addition two partners joined the Partnership programme. These are:

- Lufthansa Systems
- Safran

AFRAA welcomes the new members and partners into this continental air transport fraternity.

### **CONCLUSION**

In conclusion, the year 2007 has been a very challenging year for the African Airlines. Airlines have been tested to their limits and they have risen to the occasion. However, African Airlines must realize that they need to strategize their operations and work together to effectively compete and

survive global liberalization. Consolidating Air travel is the most viable option for the African Airlines for a globally integrated and efficient Air travel. Cost management should be the main focus for the airlines in the new year and they should endeavour to participate in the AFRAA initiated joint projects so that they benefit from the economies of scales.

African Governments also need to play an active role in formulating policies which would enhance the development of air travel. It is critical that African governments through the AU agree to a common external air transport policy to strengthen the negotiating power of their airlines.

AFRAA is calling on the African Union to organize an extra-ordinary summit on air transport to address all the political heddles and bottlenecks hampering implementation of the already agreed policies and decision of Heads of States on the development and growth of air transport.

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