

**NEED TO DEVELOP CARGO BUSINESS**  
**AFRAA- AGM MEETING - CAIRO**  
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*GIRMA WAKE*

*CEO - ETHIOPIAN AIRLINES*



## OUTLINE

1. Air Freight
2. Need to develop Cargo Business
3. Africa Cargo Market
4. Challenges
5. Opportunities
6. Strategies
7. Ethiopian Cargo



# 1. Air Freight – a catalyst for economic development

- ⇒ Important trade facilitator by increasing the global reach of companies
- ⇒ Contribute to trade in same-day and next-day delivery service
- ⇒ Transportation of time sensitive goods such as perishables
- ⇒ Critical to land locked countries
  - 15 countries in Africa are landlocked including Ethiopia
- ⇒ Employment opportunities



# Why do Airlines need to develop Cargo Business?



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## ⇒ Growing Market

- World air cargo traffic grew 12% in 2004 and 2% in 2005
- Growth slowdown in 2005 due to high jet fuel prices

## ⇒ Considerable source of revenue – key contributor to airline profitability

## ⇒ Diversification

## ⇒ Optimization of capacity utilization

- Belly carriage at relatively little incremental cost



## Cargo Revenue Proportion for selected Airlines

Airlines	% of Total Revenue	Total Revenue	Cargo Revenue	Net Profit
Air France – KLM group (Euro Mill. as at Mar 31 2006)	13.4	21,452	2,882	921
Lufthansa Group (Euro Mill. 9 months Jan to Sep 2006)	18.1	11,599	2,100	414
British Airways (UKP Mill. as at Mar 31 2006)	6.8	7,318	498	467
Emirates (AED Mill. as at Mar 31 2006)	18.1	23,066	4,183	2,475
South African Airways (Rand Mill. as at Mar 31 2005)	8.6	17,442	1,501	966
Kenya Airways (KSh Mill. as at Mar 31 2006)	10.3	52,804	5,453	4,829
Ethiopian Airlines (ETB Mill. as at Jun 30 2006)	15.4	5,399	829	134

*Source: Companies' Annual Report*



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## Passenger Airlines with largest cargo revenue

Rank	Airline	Cargo Revenue Share
1	EVA Air	45.3%
2	China Airlines	43.5%
3	Korean Air	30.6%
4	Asiana Airlines	27.8%
5	Cathy Pacific	25.2%
6	Singapore Airlines	24.3%
7	Emirates	19.3%
8	Malaysia Airlines	18.2%
9	China Eastern Airlines	18.1%
10	Thai Airways	15.6%

*Source: Airline Business – November 2006*



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### 3. Africa Cargo Market

⇒ Africa accounts lower proportion of world cargo\*

- 3.5% of the world tonnage
- 3.7% of the world RTK

⇒ But growing faster than the Industry

- Growing higher than Capacity

\* *Boeing World Air Cargo Forecast 2006 - 2007*



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### 3. Africa Cargo Market (Cont'd)

#### IATA: 8 Months Freight Traffic Data (Jan –Aug /06)

Region	FTK Growth	ATK Growth
Africa	7.90%	6.80%
Asia Pacific	5.20%	3.60%
Europe	2.10%	3.90%
Latin America	3.00%	1.40%
Middle East	16.80%	16.00%
North America	6.20%	6.80%
Industry	5.20%	5.30%



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Ethiopian  
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### 3. Africa Cargo Market (Cont'd)

- ⇒ Europe Accounts 70% of Africa's Market followed by Asia & Middle East (11%)
- ⇒ Trade between Africa and Middle East & Asia becoming significant
  - ⇒ Dubai Flower Center
  - ⇒ China and India increasing trade activity in Africa



### 3. Africa Cargo Market (Cont'd)

⇒ Principal Export and Import items

**Exports** - Perishables and apparel (E.g. Fruits, vegetables, cut flowers, seafood, clothing, coffee, cocoa, lumber)

**Imports** - Machinery, telecommunication equipment, pharmaceuticals, and finished goods



## 4. Opportunities

⇒ Growing World and African Economy

GDP Growth (%) *	2004	2005	2006 (f)	2007 (f)
World	5.3	4.9	5.1	4.9
Africa	5.5	5.4	5.4	5.9

\* Source: IMF World Economic Outlook, September 2006



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## 4. Opportunities

- ⇒ Growing cargo market
- ⇒ Predominantly perishable / agricultural export product
- ⇒ Regional integration and promotion of intra-Africa trade as poverty reduction scheme
  - NEPAD/COMESA/ECOWAS/SADC etc.



## 4. Opportunities (Cont'd)

- ⇒ Liberalization and Export promotion initiatives
  - National / Bilateral initiatives
    - Increasing Open skies declarations for cargo
  - Regional / multilateral initiatives
    - European Common Aviation Area
    - Yamoussoukro Decision
  - Export promotion initiatives such as AGOA
  
- ⇒ Information Technology & Application of Simplified Business Practices



## 5. Challenges

- ⇒ Directional imbalance
- ⇒ Limited schedule operators dominated by foreign operators such as:
  - Air France
  - British Airways
  - Cargolux Airline International
  - Emirates
  - Martinair Holland
- ⇒ Competition from other modes of transport
- ⇒ Restrictive traffic right



## 5. Challenges (Cont'd)

- ⇒ Poor infrastructure
- ⇒ Limited capacity
- ⇒ Rising Operational Cost
  - Fuel cost
  - Indirect taxation through customs
  - Security cost
- ⇒ Currency Fluctuations
- ⇒ Trade & Quota restrictions / Bureaucratic Customs & Government Procedures





## 6. Strategies

- ⇒ Market access through direct operations and/or partnerships
- ⇒ Cooperation among airlines and capacity sharing to save costs
- ⇒ Improve belly capacity that support passenger demand
- ⇒ Modernization of facilities to move into the mainstream of international freight transport
- ⇒ Work closely with local agents, freight forwarders etc and develop close cargo community



## 6. Strategies (Cont'd)

- ⇒ Develop cargo business as separate unit
- ⇒ Private/Public partnership in building the necessary legal and operational framework:
  - Development of infrastructure
  - Flexible traffic right and liberalization
  - Customs regulation and procedures
  - Integration and promotion of intra-Africa trade



## 7. Ethiopian Cargo

- ⇒ As a landlocked country air transport is the most important link to the global market
- ⇒ Growing market for vegetables and cut flowers
- ⇒ New cargo terminal with the state of the art facilities and big cold rooms for perishables
- ⇒ Converted one B757 passenger to freighter
  - ⇒ Plan to lease in one MD-11F/DC.10.30F



## 7. Ethiopian Cargo (cont'd)

- ⇒ Annual traffic 2005/06 – 61,412 tones
- ⇒ Revenue (2005/06) – USD 94 million (15% of total revenue)
- ⇒ Major Destination - Schedule Service

Europe - Brussels  
- Rome

Middle east - Dubai  
- Jeddah

Africa - Lagos  
- Entebbe  
- Kinshasa  
- Khartoum  
- Cairo

Asia - Mumbai



**Let us walk the talk!**



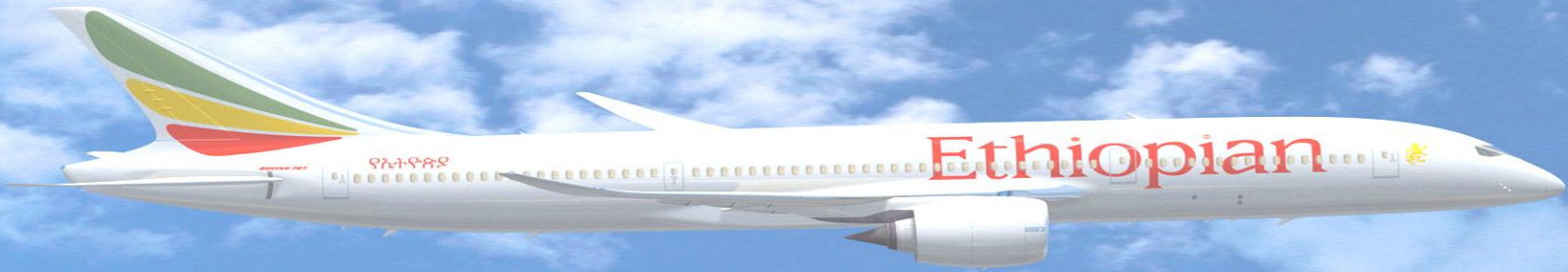
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AFRICA'S WORLD CLASS AIRLINE

Ethiopian  
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***Thank You!***



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