

AIRLINES ASSOCIATION OF SOUTHERN AFRICA



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44th ANNUAL GENERAL ASSEMBLY

**HILTON MAURITIUS RESORT AND SPA
MAURITIUS**

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**INDUSTRY ADDRESS
(presented on 31 October 2014)**

“CHANGING THE GAME!”

**MR CHRIS ZWEIGENTHAL
CHIEF EXECUTIVE**

DELEGATE COPY

- Hon Mr Michael Yueng Sik Yuen, Minister of Tourism and Leisure, Mauritius
- Mr Zakhele Thwala, Deputy Director General, Transport, Republic of South Africa
- Mr Andre Viljoen, Chief Executive, Air Mauritius, our host for this Assembly
- Mr Erik Venter, Chairperson of the Airlines Association of Southern Africa
- Executive Committee Members of AASA
- Mr Hussein Dabbas, Vice President, Middle East and Africa, IATA
- Mr Raphael Kuuchi, Vice President, Africa, IATA
- Mr Nawal Taneja, our Keynote Speaker
- Director Generals, Directors and senior officials from all Government Departments represented
- Chief Executives and of Executives our Member Airlines,
- Chairpersons, Presidents, Members of the Board and Executives of our Associate Members,
- Distinguished Speakers, Sponsors, Guests, Ladies and Gentlemen – all Protocol observed

What a year 2014 has been so far for not only our aviation industry but our world. Last year at our conference, I spoke of a vision of double digit growth rates required for African Airlines to recover market share lost to the influx of international airlines increasing their operations and destinations in Africa. But our lives have been disrupted by airline tragedies on multiple fronts both in our region and outside, with further uncertainty, disease, terrorist acts of unspeakable cruelty, and then the questions why the airline industry does not have all the answers.

And then to those who are not impacted by these events, there is an unfortunate air of indifference. Quite an indictment on us as a human race, especially as it took such a long time to get to the point that the rest of the world and Africa realized that we all collectively have a role to play in solving the Ebola problem.

In the meantime, the airline industry continues to serve its customers. Notwithstanding the above developments, the underlying dynamics of the global airline industry have been positive during 2014. IATA is projecting a net profit of \$18 billion in 2014 compared to \$10.6 billion net profit in 2013. This reflects a 2.5% return on turnover and a return per passenger of \$4.50 and a return on capital of approximately 4.5%. In Africa, the prognosis is still for a \$100 million net profit, reflecting a marginally positive return on turnover of 0.8% with a net profit of \$1.64 per passenger.

Looking closer to home, data does not exist for determining the overall profitability of the SADC region in isolation but an assessment from information available for the 24 major scheduled airlines in the Southern African region provides the following summarized information in Table 1 Airline Breakdown in terms of profitability and strategy development :

TABLE 1 : Airline breakdown in terms of Profitability and Strategy development

AIRLINES	RSA	REGION	TOTAL	PROFITABLE	NON PROFITABLE	PROFITABILITY NOT KNOWN	TURNAROUND, RESTRUCTURING, LAUNCH
STATE OWNED	3	12	15	4	7	4	10
PRIVATE	7	2	9	5	2	2	2
TOTAL	10	14	24	9	9	6	12
NUMBER OF AIRCRAFT	167	101	268				

Source : Wikipedia and Airline websites

For clarity, in Table 1 under “profitability unknown” airlines are included whose profitability is not known or not published. The objective of this discussion is not to interrogate which airline falls into which category. I am sure the CEO’s and Executives are aware of their position. What is important is to note that the relative breakeven position in Africa extends itself into our region. What is further evident is that of the 24 airlines considered, 12 of them are in various stages of either turnaround strategies, restructuring or a launch of operations.

TABLE 2 : Analysis of traffic (million departing passengers)

	ACTUAL			FORECAST	PLANNED			
YEAR	2011	2012	2013	2014	2015	2016	2017	2018
RSA	18.187	18.697	18.238	18.299	18.751	19.386	20.119	20.910
<i>Growth</i>	6.15%	2.81%	-2.46%	0.34%	2.47%	3.39%	3.78%	3.93%
REGION	6.825	6.932	7.293	7.714	8.136	8.557	8.977	9.401
<i>Growth</i>	7.25%	1.58%	5.20%	5.77%	5.46%	5.18%	4.92%	4.71%
TOTAL	25.012	25.630	25.531	26.013	26.886	27.943	29.097	30.311
<i>Growth</i>	6.45%	2.47%	-0.39%	1.89%	3.36%	3.93%	4.13%	4.17%

Source : World Bank taken together with statistics from Airport organizations in South Africa

Table 2, providing an analysis of traffic from the World Bank and Airport organizations, reflects a breakdown of actual and projected traffic in our geographical region over the period of 2011 to 2018. In South Africa there was a decline in passenger traffic from 2012 to 2013. This tide appears to have turned in

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2014 with a cautious growth expectation of between 2% and 4% over the next four years, tempered by the sluggish GDP forecast for South Africa of 1.4% per annum for the next year. In the rest of our region, passenger traffic growth remained fairly resilient and is expected to be between 4% and 6% on average over the corresponding four year period. Certain markets in our region have the potential to even touch double digit annual passenger growth, coming off a low base. The region's growth projections are in line with continental growth projections for Africa of just under 6% over this period.

Global forecasts from IATA expect a 4.1% average growth over the next 20 years and a 4.7% average growth for Africa. The highest growing markets will be in Asia, Middle East and Gulf and Africa, and it is my view that off a relatively low base, aviation growth in the region can and should exceed even the highest growth markets of Asia, the Middle East and Gulf.

However, before this can consistently be achieved, it is necessary to deal with the important task of putting our airlines into the position of being able to compete and to move away from the almost permanent focus on survival. The "turnarounds" mentioned earlier need to deliver change and growth. For some airlines, this is not the first time they are going through this. At this critical stage in the development of our industry where we are poised for growth, it is imperative to complete this process. It is for this reason that we decided on the theme of this conference to be "Mastering Industry Strategic Turnarounds".

We have assembled experts and industry minds with much experience to deal with this subject and hopefully unlock some ideas and initiatives that can be used for the benefit of the industry as a whole. We have heard earlier from Mr Nawal Taneja on the Challenges and Strategic Opportunities facing African Aviation. Later we will listen to Hussein Dabbas from IATA speak to us on dealing with the unexpected issues in aviation which can derail or hinder positive developments. Thereafter, we shall listen to the views of some of our partners who traditionally are more profitable than the airlines. I am hoping that they may divulge some of their secrets that we are unaware of. Thereafter, building on what the Honourable Minister spoke to us earlier on, we ask policy makers and service providers for their views on what further changes in policy or new actions could assist in the turnaround process. And finally, we ask the CEO's who need to make it work, to share their experiences, maybe their frustrations, and their assessment of what would effectively "change the game".

A question to ask : Will the application of sound aviation and business principles and processes according to strategic turnaround plans - which have been designed internally or with the assistance of external consultants - lead airlines to success? Or are we looking for something else, like "game changers"?

Before expanding on this, we all know that Aviation operates in a tough environment characterized by small margins and unpredictability. Bringing this closer to home, let us examine the critical matters in our region.

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Safety remains paramount. As I alluded to at the start of my address, we are not immune in our region. While major strides forward have been made through the adoption of IOSA and other safety measures, there is still the potential for accidents - with terrible fatal consequences - as we were reminded of by the tragedy that befell one of our members at the end of last November. Safety audits are not a silver bullet. Neither should they be regarded as box-ticking exercises. They flag up system and process gaps, which have to be closed. Proper safety demands vigilance, diligence, resources and commitment. When things go wrong, our reputations and the confidence of customers, airworthiness authorities, financiers and other stakeholders are tested.

Security has also been in the spotlight again following the downing of MH17 over the Ukraine. Just as we rely on the roads department and traffic authorities to alert us to road hazards and direct us to detours, in the same way airlines rely on the advice of government authorities to guide their flight planning. It is imperative for us to plan with confidence, assured that the integrity of that advice and the intelligence upon which it is based is not compromised and we call upon the governments of SADC and AU member states to remain diligent in this respect as our region and operations are not immune from similar threats. AASA stands alongside the global industry in calling for the United Nations to draft an international convention on the training and use of such weapons, which should never be used against civilian aircraft.

Oil has dropped to its lowest price since mid 2012 at \$83 per barrel in mid-October. That's great news and a welcome relief. But is it sustainable? And will it remain at these levels long enough for industry to benefit significantly?

Infrastructure cost increases in South Africa are expected to be at levels of CPI or better over the next few years, which is encouraging. The ability of airlines to recover further increases in taxes and charges will be tested by this overall economic squeeze.

Lurking on the horizon are **carbon taxes** and **potential carbon trading schemes** of some form or another. These bring a financial incentive to airlines to address their environmental responsibility and reduce their greenhouse gas emissions. Steps we take should be in line with global solutions and market based measures being proposed and developed under the leadership of ICAO and IATA. The burden should not rest solely on airlines' shoulders. The four pillars of:

- Improved infrastructure and efficiencies in airspace management and ground movements,
- Affordable, new and enhanced products from aircraft and engine manufacturers,
- The development of alternative fuels and
- New market based measures

are means to offer efficiency gains, save fuel and reduce emissions. We look to policy makers, regulators and stakeholders to act swiftly to develop an acceptable global solution without delay.

The **customer** must never be forgotten in this process.

With the largest aviation market in Africa still concentrated in the AASA geographical region, it is probable that further airlines will be launched or will try to expand their operations. Aviation policies of States, especially where they relate to ownership, control and market access, will come under pressure as new entrants, many of them seeing themselves as “game-changers”, and the travelling public push for greater competition and more options. The biggest challenge to the status quo is coming from low cost airlines such as Fastjet and FlyAfrica which are attempting to emulate AirAsia by establishing themselves as pan-African low cost airlines with regional, domestic and possibly even “longer haul” operations with some added amenities. Such initiatives will continue to apply pressure to the region's incumbent airlines as they battle for market share, profitability and growth.

The relationship between Government policy formulation and regulatory control, together with sound Airline strategic and business plans, backed up by efficient, safe and reliable operations remains a fine balance. Within each State, each airline is correctly under pressure from Government to ensure compliance with Safety, Security, and transformation including skills development. AASA and its airlines are fully committed to these imperatives. Airlines require an enabling environment where Government policies for Aviation, Immigration, Tourism and Trade are aligned to enable them to concentrate on their business development and the above imperatives.

A case in point is South Africa's new immigration regulations and requirements, where the travel, tourism, and aviation sector raised concerns with the Home Affairs authorities. Proactive intervention by AASA, IATA together with the TBCSA, led to a meeting with the Minister, the suspension of implementation of concerning provisions and opened the door to engagement with Home Affairs and industry with the formation of a task team to consider and make recommendations on the implementation of these items.

While on this topic, I want to emphasize AASA's commitment to the fight against the scourge that is child trafficking. As an industry, it is our ethical and social responsibility to combat such abuse. AASA supports the cause as a partner in the South Africa Fair Trade in Tourism initiative. At our next quarterly business meeting we will have a presentation on this cause, and I would like to rally all of our members, associates and partners to support this initiative.

I believe the intervention of “game changers” are necessary to deal collectively with the above critical issues and successful turnarounds. Let me expand and cite three examples of “Game Changers” from which we can learn for our aviation industry.

Firstly, many South Africans will know of Adrian Gore, Chief Executive of Discovery Health, the largest Medical Insurance Company in South Africa – a “game changer” of note in his field. In the 1990's when medical aid schemes were in financial

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distress, Adrian proposed a new medical insurance scheme to his then employers Liberty Life, was turned down, but found a backer to form what would become Discovery Health in 1992 and the rest is history. It revolutionized the treatment of health care, integrating wellness behaviour with health, life and short-term insurance. Business entrepreneurship at its best.

Secondly, there is the well known story of Herb Kelleher and the formation of Southwest Airlines, the first ever low cost airline. Facing, hefty legal challenges from his competitors, which he won, Kelleher formed the airline which would become known as Southwest Airlines based in Dallas, Texas in 1971. His brand of eccentricity, fun, and providing an excellent service to meet the basic needs of his passengers, made Southwest for a time the largest domestic airline in the USA. Airline legends, Richard Branson (Virgin Atlantic), Michael O'Leary (Ryanair) and Stelios Haji-Ioannou (Easyjet) have credited Herb Kelleher with contributing significantly to their success. A true aviation "game changer" with the LCC model implemented world wide.

And the final "game changer" I respectfully wish to put forward, is a South African and a world icon, President Nelson Mandela. In the annals of world leadership he has no peer. With his clear vision and humility, Nelson Mandela turned a nation on edge into a united nation with a new identity. A massive leadership "game changer".

Successful leaders are normally the "game changers" but can also be disrupters in their own organizations. Our industry is no different. To borrow a military analogy, like any smart General, airline Chief Executives must read the bigger picture and be able to rapidly adapt tactics to affect and respond to changes on their battlefield. They must also be aware of the landmines, artillery, and snipers taking aim against them, the threats to their supply lines, their capacity to reinforce their armies, to access the most appropriate weapons when they are needed, and then ultimately be able to finance sustainable campaigns. It's when faced with crises that CEO's are expected to demonstrate their leadership skills. Because when confidence is eroded, the sustainability of our businesses and the livelihoods they support, are jeopardised.

Following in the vein of the imperative for industry-government dialogue and cooperation, I would like to recommend the convening of an Airline Strategic Forum, including Governments in the region together with Airline and Industry Stakeholders, where we jointly assess how we close the gaps that exist between Government's policy imperatives and airline business imperatives. We can draw on many successes both within Africa, the Gulf region and internationally. This could provide a forum for the identification of "game changing" initiatives. I intend to explore this initiative further.

In conclusion, over the past few years, the airline industry in the region has seen the demise of several airlines, the re-launch of others and fluctuating economic and business fortunes. We have half the airlines in the region involved in some form of

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turnaround or restructuring, which can divert the focus away from business opportunities out there. There are many who want to be that “game changer” - the one who comes up with the idea that re-invents aviation and has the secret to successful industry strategic turnarounds. I am hoping some insights to the solution will become evident during this conference. We at AASA shall continue to support the industry in whichever way possible to achieve its goals and find that “game changing” solution.

THANK YOU!!

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