

AIRLINES ASSOCIATION OF SOUTHERN AFRICA



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49th ANNUAL GENERAL ASSEMBLY

LUX SAINT GILLES RESORT, REUNION

10 TO 13 OCTOBER 2019

**INDUSTRY ADDRESS
(Presentation on 11 October 2019)**

“WHAT’S STOPPING US? WHAT’S NOT?”

**MR CHRIS ZWEIGENTHAL
CHIEF EXECUTIVE OFFICER**

- Monsieur Le Prefect, Jacques Billant
- Madame Vice President of the Region, Mrs Yolaine Costes
- Mosieur President of the Department, Mr Cyril Melchior
- Deputy Chairperson of the Airlines Association of Southern Africa, Ms Zukisa Ramasia,
- Chairman and CEO of Air Austral, Mr Marie Joseph Male
- Members of the Board and Executive Committee Members of AASA
- Senior Vice President, Member and External Relations, IATA, Mr Paul Steele
- Chairpersons, Chief Executives, Board Members and Executives of our Member Airlines, Associate Members, Industry Associations and Guest organizations
- Officials and members of Government Departments represented
- Distinguished Speakers, Sponsors, Guests, Ladies and Gentlemen

It is an honour and pleasure for us to once again host our Annual General Assembly at the LUX St Gilles Resort, here in beautiful Reunion. We were last here 24 years ago. I hope everyone will get the opportunity to explore and enjoy its beauty.

On behalf of the Airlines Association of Southern Africa, and everyone here, my sincere thanks to the Government and Community of Reunion, Mr Marie Joseph Male, Chairman and Chief Executive Officer of Air Austral and his team for your welcome, your generosity and hospitality in hosting our 49th Assembly. We are delighted everyone and everything came together as planned.

Every year I consider the world we live and operate in, and I think : “Next year it will be different – it can’t get any crazier!” I’m wrong. It can! Look at what’s happening in the US, the UK EU and BREXIT, trade wars, China, Russia, Ukraine, North Korea, Saudi Arabia, Iran, etc, let alone regional and local developments.

So where do we find our industry in this context?

The International Air Transport Association (IATA) expects the global scheduled airline industry to achieve a US\$ 28 billion profit this year. Although down from a US\$ 35 billion profit in 2018, it is a positive result.

Contrast this with Africa, where airlines are collectively expected to lose another US\$ 300 million in 2019. It’s a re-run of 2018 and the ninth straight year of losses for the continent. The picture is similar for our sub-region. For almost a decade we have failed to turn to the red ink to black.

The theme of this year’s Assembly is “What’s stopping us?”

So I ask you, what is stopping the airlines in our region from being profitable and self-sustaining?

Consider the current status of our region’s airlines:

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- The region comprises 17 states : 16 SADC members and Reunion
- It is home to 25 scheduled commercial airlines
 - 13 state-owned
 - 3 with joint public/private owners
 - 9 privately owned
- Of these, 6 are profitable – two are state-owned
- 9 are unprofitable
- The performance of the remaining 10 is not known as their financial results are not public. They may be profitable, but most likely only marginally.

Globally, passenger growth has slowed from 6.6% in 2018 to 5.6% this year. In Africa, average growth has accelerated by 2.8% this year, compared with 2.3% in 2018. August 2019 data released on 9 October 2019 reflect a 3.3% growth globally and a 4.1% growth in Africa, slightly below the annual trend.

Over the long term, annual passenger traffic growth is forecast to average 4.4% globally and 5.6% for Africa by 2035.

Regarding airfreight, global trade tensions are unfortunately driving a negative global trend of 3.5% in 2019 with Africa interestingly deriving some benefit with a marginally positive growth of around 2% in 2019. August 2019 data released on 9 October 2019 reflect a 3.9% decline globally and a 8% growth in Africa, reflecting Africa having the fastest growth worldwide.

Low cost airlines are increasing their presence, operating in 28 of the 55 African States. They occupy about 65.4% of South Africa's domestic market – and growing. But they only account for 16% of the entire African market, and a 33% market share globally.

The airline industry is critical for **enabling socio-economic growth and development**. It facilitates investment, trade and tourism. Viable and sustainable airlines create and support jobs, foster skills development, drive innovation, encourage entrepreneurial initiatives and enhance economic competitiveness.

So - "What's Stopping Us?"

I am unconvinced that Africa's leaders fully appreciate aviation's strategic importance and the **benefits it delivers**. AASA, in conjunction with IATA, the Air Transport Action Group and ICAO persistently draws government authorities, regulators and policy-makers' attention to these benefits. Our aim is to encourage collaboration and achieve mutually beneficial solutions.

Inconsistent policies within and between states must be addressed. A positive development is the African Union's attempt to establish the Africa Continental Free Trade Area. When fully implemented, it will be the world's largest single trading bloc. Aviation, trade and tourism are among its key pillars.

Trade and Tourism will flourish if **people and goods can move freely** throughout the continent in a visa-free and streamlined customs environment. Visa waivers or visas on arrival are a step in the right direction, but meaningful progress on both fronts is frustratingly slow.

In South Africa, the Government has acknowledged the negative impact on tourism of current **visa** regulations and **unabridged birth certificate** requirements for minors. On Wednesday we were advised that President Ramaphosa has instructed the Department of Home Affairs to rescind this requirement for foreign based minors. We await confirmation of its revocation in hopeful anticipation. The CEO and team at Tourism Business Council of South Africa must take a lot of the credit for this latest positive development.

The recent reappearance of **xenophobia** – or more accurately, Afrophobia – in South Africa was devastating. As an association representing an industry that serves to bring people together, AASA condemns this in the strongest possible terms. Intolerance and intimidation have no place in society. We welcome and support the initiatives of the past few days by the leaders of South Africa and Nigeria, who have re-committed to repairing and strengthening the bonds that bind Africa's two largest economies and their people, proving that we are stronger united.

Aviation's most important contribution on the continent is to connect markets. In this respect, reforming Africa's air transport regulatory framework remains critical.

The African Union's **Single Africa Air Transport Market (SAATM)** initiative, intended to operationalize the Yamoussoukro Decision of 1999 is intended to help governments leverage sustainable economic growth by opening up and connecting trade and tourism markets with expanded air services. For airlines it should reduce unit costs while increasing revenue. For travellers and shippers it means greater choice and reducing the cost of doing travel and business.

However, there are differing views on SAATM. Most are born out of concerns on the impact of SAATM on their businesses. In addition some airlines and regulators fear what they see as uneven playing fields, especially with respect to the process of granting fifth freedom rights sometimes without reciprocity. allowing airlines of one country to fly passengers and goods between two other countries.

Through the African Civil Aviation Commission (the Executing Agency), the AU must convene a meeting of concerned states **AND** airlines (including some that have committed to SAATM), to identify and thrash out the problems. Africa's credibility is on the line.

For airlines to be profitable, **revenue must exceed costs**. In Africa the revenue generated reflects the competitive state of play. Yields are generally higher on regional flights and lower for international flights. This is a result of the intense competition provided by airlines from beyond Africa.

African airlines **unit costs** remain high. Many are dollar based, including aircraft leasing and financing, distribution, maintenance, some infrastructure service provider costs, and jet fuel, which sells at an average 35% premium compared with global average prices.

While African airlines cannot influence currency exchange rates, they must narrow the delta between costs and revenues by increasing aircraft utilization, raising productivity and reducing other unit costs. This would enable them to offer competitive services to sell at fares that cover their costs, a move towards sustainability.

What then “is NOT stopping us”?

In recent weeks, women and young people have demanded everyone’s attention for important issues they have placed in the global spotlight.

The first of these is a demand for **equal rights for women** in what are still largely patriarchal societies. In South Africa, a spate of femicides brought matters to a head, with women voicing their anger, including marches on Parliament and the World Economic Forum for Africa meeting in Cape Town. They were protesting against violence, discrimination and sexual harassment and demanding gender equality, equal opportunity and empowerment for women.

At the SA Civil Aviation Authority Gender Summit held on 30 August 2019, I signed a pledge with industry colleagues and South Africa’s Transport Minister, in support of those principles. We need to affirm the women in our industry and in our lives. As men, we must teach our sons and grandsons by example and consign abuse, harassment and disrespect of women – and anyone else - to history’s dustbin.

Our industry has been dominated by men, but our region is making some progress in righting the gender imbalance. In South Africa, about 52% of all airline employees are women. While most are in the lower management and staff, three of the eight airline CEO’s (38%) are women. Across the SADC region it is 15%. This compares favourably with the rest of the world, where, according to IATA, just 3% of scheduled commercial airlines’ CEOs are women.

However, in the specialist fields, including pilots, aviation engineers and technicians the statistics paint a gloomy picture. In South Africa, women account for 10% of airline pilots and 10.5% of technicians and engineers. As a high-profile sector, there is much work still to be done.

In the past months we have seen examples of principled **young people** standing up to authority, with authority, in defence of their beliefs.

While we may or may not agree with the idealism or the binary logic of their impassioned arguments, we cannot – and must not – ignore young peoples’ voices and the valid issues they are putting on the table.

Consider Hong Kong where nearly four months of civil liberty protests led by the youth have got the city's and Chinese authorities attention and thrust residents concerns under the global spotlight.

Consider also Greta Thunberg, the Swedish schoolgirl environmental activist. In 12 months, she has gone from boycotting her Friday school classes to becoming the face of a global **climate-change** awareness campaign. At the United Nations General Assembly, she took world leaders to task for their intransigence on tackling climate change. A few days ago in Montreal, her demonstration brought a temporary halt to the ICAO assembly.

Aligned to this, "What is also NOT stopping us" is the availability of hungry **young talent**, ready to take up the positions in our industry. About half of Africa's 1.2 billion inhabitants are aged between 19 and 25. It is why Africa is the continent with the highest growth **potential**. This is not something to brag about. It's a ticking time-bomb. We have to turn potential into actual growth.

Skills development and mentorship programmes must be implemented so we can transfer the necessary knowledge, expertise and skills, knowing, when it is time to pass the baton, that we can place it in capable hands.

Climate Change should not hold us back. The Carbon Offsetting and Reduction Scheme for International Aviation (**CORSIA**) was reaffirmed at the ICAO Assembly last week. Ten African countries, including three SADC nations, have volunteered for the pilot and first phase of CORSIA. All states operating international flights above a certain threshold, must comply with an emission reporting programme to their States. This commenced on 1 January 2019. This generates an awareness and need for carbon emission reduction by airlines.

Historically, Africa's **safety** record was dire, but remarkable progress was made over the past decade and it should no longer hold us back. 2017 and 2018 were unblemished by any fatalities or hull losses involving scheduled airline operations in Africa.

The tragic loss of the Ethiopian Airlines Boeing 737 MAX this March not only brought this run to an end, but has raised serious questions about aircraft design, technology and certification, pilot training and recruiting standards and human factors on the flight deck across the board. It also prompted a worldwide crisis of confidence in the **airworthiness certification model** that has been in place and served the industry for decades.

Our entire industry needs certainty from the safety regulators in each state, on how they will recognise airworthiness certification programmes run by authorities in other countries. This is of particular importance in countries, including those in Africa and our region - which until now - have relied on their counterparts in the US, Europe, Canada and Brazil (representing the countries where the major airframe and

engine manufacturers are based) to vouch for the safety of new aircraft and their engines. We cannot have a patchwork situation where commercial airliners and engines are deemed safe and fit for purpose in one jurisdiction, but not in others. Trust must be restored.

Changes to the safety, regulatory and airspace management systems are also required to accommodate the increasing fleet of **unmanned airborne systems** as they take on more commercial air transport roles. This is not just about safely sharing airspace, but how we share the commercial space.

We are no longer talking about gimmicky Christmas toys, but sophisticated aircraft capable of carrying heavy cargo loads over relatively long distances. They are about to revolutionise the logistics industry in tandem with a boom in e-Commerce and online shopping. Airbus, Boeing, Embraer, Amazon and numerous start-ups are also developing and testing passenger and cargo carrying UAS concepts. Rwanda and Ghana are global pioneers, hosting sophisticated UAS systems that deliver medicines from the main centres to remote communities. Visionary airspace design and management ensures they operate safely.

Data-driven technologies represent additional opportunities for African airlines to unlock additional value especially if they take the hassle out of travel for passengers and make doing business more efficient.

The flip-side is an imperative for vigilance and continual investment in robust protection and data security systems. Securely preserving the integrity and privacy of data is crucial, especially in the air transport and allied sectors where transactions are done with people and businesses in numerous jurisdictions and covered by various laws.

A case in point occurred this July, when the United Kingdom's Information Commissioner slapped British Airways and its parent, International Airlines Group, with a record £183 million (that's R3,4 BILLION!!!) fine - representing about 1.5% of their turnover. This was a penalty issued under the EU's General Data Protection Regulation, for a data breach that affected 500 000 BA customers browsing and booking tickets online. GDPR applies to any business that processes European citizens' personal data – regardless of where in the world they may be domiciled and operating.

I have looked back past state of the industry addresses, which have often concluded that “we need to do something about our situation, but progress is slow”. We've all seen this movie before. It is time we stopped hitting “Repeat” and press “Play” to start a new episode – the one which sees new partnerships and alliances formed, opportunities created (and taken), with a vibrant and heroic Africa emerging.

THANK YOU!!
