

AIRLINES ASSOCIATION OF SOUTHERN AFRICA



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47th ANNUAL GENERAL ASSEMBLY

WILD COAST SUN, EASTERN CAPE, SOUTH AFRICA

12 TO 15 OCTOBER 2017

INDUSTRY ADDRESS

(Presentation on 13 October 2017)

DELEGATE COPY

**“BUILDING HUMAN CAPITAL FOR AFRICAN AIRLINES –
DEVELOPING OUR MOST PRECIOUS RESOURCE – OUR
PEOPLE”**

**MR CHRIS ZWEIGENTHAL
CHIEF EXECUTIVE**

- Mr. Sihle Zikalala, MEC for Economic Development, Tourism and Environmental Affairs, KwaZulu Natal
- Mr. Sinethemba Mngqibisa, Acting Deputy Director General: Civil Aviation, Department of Transport, representing the Minister of Transport, South Africa
- Advocate Mandi Samson, Acting Chairperson of the Airlines Association of Southern Africa
- Members of the Board and Executive Committee Members of AASA
- Mr. Paul Steele, Senior Vice President, Member and External Relations and Corporate Secretary, IATA
- Mr. Raphael Kuuchi, Vice President, Africa, IATA
- Dr. Elijah Chingosho, Secretary General, AFRAA
- Director Generals, Directors and senior officials from all Government Departments represented
- Chairpersons, Chief Executives and Executives of our Member Airlines and Industry Associations
- Chairpersons, Presidents, Members of the Board and Executives of our Associate Members
- Distinguished Speakers, Sponsors, Guests, Ladies and Gentlemen – all Protocol observed

It is truly great to see you all once again at the AASA Annual General Assembly this year at the beautiful Wild Coast Sun venue. I wish to thank Miles van der Molen, Managing Director of Cemair, and his team for hosting this year's Assembly.

It is not called the Wild Coast for nothing. Over the centuries intrepid explorers and seamen navigating this often treacherous coastline have battled pounding waves and tumultuous seas which have cost many lives and caused many a ship to be lost or wrecked.

Industry Performance and Challenges

It's therefore quite fitting that we're meeting here this year as I'm sure most of you will agree that our industry in Africa is in many ways having to navigate heavy weather, strong currents, deep swells and rocky obstacles.

While IATA is forecasting a US\$ 31 billion net profit for the entire global industry for 2017, African airlines are set for a repeat of the 2016 trend, returning losses of around US\$ 800 million for 2017. Zooming in, SADC airlines are expected to incur a combined US\$ 350 million loss, of which about US\$ 100 million will be from South Africa's carriers.

Across the continent and particularly in Southern Africa, our industry remains characterised by intense competition - domestically (particularly in South Africa), regionally, and internationally - with a number of players increasing their footprint across the continent.

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Additional challenges African airlines face includes the following:

- African governments' failure to reform market access, whether it is through the Yamoussoukro Decision or the AU's commitment to establish a single common African aviation market;
- High US Dollar-driven operating costs;
- Safety and security and the need to remain focused on continually improving safety performance throughout Africa;
- Revenues earned in some countries being withheld, and access to them blocked, by governments that are attempting to hoard forex reserves; and
- Climate change and the need to embrace and comply with initiatives, measures and associated goals that mitigate aviation's contribution to global warming.

These factors all impact on our industry's ability to grow, develop and compete on the global aviation stage. Some airlines have made more progress and are more successful in tackling these issues than others.

Human Capital Development – the challenge

This year, however, I will not deal with these matters in any detail. AASA's work in these areas is covered in our Annual Report.

Instead, I want to focus on another element which was discussed in some detail at last year's AASA Annual General Meeting and which is intrinsic and fundamental to the sustainability of our industry and your businesses: Human Capital. More especially:

- The availability and development of suitably skilled talent;
- Our ability to attract it for aviation; and
- Our ability to retain this talent.

Hence the theme for this year's assembly: "Building Human Capital for African Airlines".

There can be no doubt we need new and additional skilled people.

According to all industry forecasts, demand for air transport to, from and within Africa will double over the next 20 years, underpinning a requirement for over 1,000 new aircraft in the African fleet over the same period, with a need to source around 20,000 pilots and even more, other engineering and technical specialists to operate and maintain these aircraft.

This is hardly surprising when we consider Africa is experiencing the largest population explosion ever. According to the United Nations' Department of Economic and Social Affairs' "2017 World Population Prospects" report, we will add the equivalent of the present population of China, to Africa, in 33

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years. The numbers are both frightening and exciting. As are the prospects they represent.

That said, in a region like ours, nothing is simple. Economic and demographic factors, legacy issues, government policies on matters such as education, trade and industry, economic empowerment, transformation and labour relations, socio-political imperatives and of course, moral obligations, all have to be addressed.

Depending on whether you are a glass half-empty or half-full person, these factors either represent a massive additional burden on our industry, or a golden opportunity to positively and proactively shape our industry's future.

We will discuss the various components on this subject, and although we do not have all the answers, we anticipate a number of actions will be initiated to be developed as an industry pulling together with other role players. Of course, ours is not the only industry facing a human capital development challenge and we should look to learn from others.

What do we need to get right?

Basic Education

Let us start at the beginning. Back to school.

Chapter 9 of the National Development Plan (NDP) 2030 deals with Education in South Africa. It notes that while great strides have been made since 1994 to provide access to basic education for children from previously disadvantaged communities, "the legacy of low quality education in historically disadvantaged parts of the school system still persists".

This paucity in basic primary school teaching in those communities is characterised by an almost 50 percent dropout rate in primary school alone, adding to the number of potentially talented people who are rendered ineligible to study for and pursue careers in aviation - or in other sectors - which place a premium on Science, Technology, Engineering and Mathematics (the STEM subjects). Teachers are also often ill-equipped for their duties and it is necessary to follow-through with on-going education and training.

The NDP lays out a roadmap for what is required to turn this around, challenging both governments and the private sector to action.

Fortunately, several aviation-orientated programmes have been initiated and target school learners. Among them are "Wonders of Aviation", which is a South African non-profit organisation founded by our good friend Don Schenk, from the USA, and actively supported by AASA and the aviation industry in

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South Africa. Its objective is to use “... the magic of flight to inspire and educate previously disadvantaged youth about the aviation industry ...” with “... outreach programs that encourage learners to consider a career in aviation ...” .

Other initiatives include outreach by The International Women in Aviation Organization - which has chapters in several African States including Botswana and Zambia - and the South African Woman in Aviation and Aerospace organisation founded by Ms. Refilwe Ledwaba, who will be speaking to us later.

There are also NGO initiatives, such as the Link Literacy Programme, through which volunteers are based in primary schools to provide foundation learners with one-on-one assisted literacy and mathematics teaching.

Basic Education into Tertiary Education

Of the learners who do complete matric, many struggle with numeracy and literacy skills. TVET'S (Technikons) and Universities often have to assist those learners by providing bridging courses to close the gaps in their basic education and prepare them to cope with the more complex and demanding courses. Government's reduction in universities' subsidies combined with the cap on fees increases has created a funding squeeze affecting all universities and it is surely only a matter of time before their ability to provide this discretionary additional tuition is threatened.

With the exception of a specialisation stream in aviation as part of an Honours Degree in Transport Economics, an Aeronautical Engineering option as part of a Mechanical Engineering degree or as the focus of an MBA, there are no specific aviation degrees offered in South Africa or, to my knowledge, at any other African universities.

Unfortunately, without critical numbers and sufficient funding, it is not viable to introduce such a degree. Those students who wish to attain such a degree - and who have the means - are forced to attend universities elsewhere, such as in the USA, UK or Canada. This has prompted ICAO, IATA and several Aviation Training Academies and Institutions in almost every geographical region to develop and offer aviation specialist courses. More about this later.

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Aviation Skills

What are the scarce critical skills in aviation in our region? Our human resource experts have identified them as the following:

- Executive and Management;
- Revenue and Yield Management;
- Pilots - ATPL;
- E-commerce;
- Distribution and Systems Management;
- Schedulers;
- Forecasters;
- Load Controllers; and
- Aviation Engineers and Technicians.

Training for skills to attain proficiencies in some of the above fields as well as other crucial capabilities in finance, economics, accounting, and marketing, are available at higher learning institutions, but not for aviation specific functions. Some airlines have developed their own in-house training centres (with the airlines accredited as an Aviation Training Organization by their Civil Aviation Authorities). Alternatively, they send their employees to external aviation training centres also accredited to provide specific courses. Sometimes it is necessary to recruit people from outside Africa to transfer skills to local employees.

Like the tertiary education institutions, airlines are also having to provide bridging courses to raise employees' proficiencies in communication, literacy and numeracy.

Transformation

Given our socio-economic histories in this part of the world, transformation in the work place cannot be taken out of the equation for Human Capital development.

In South Africa, all local carriers, MRO's and other aviation industry businesses, regardless of ownership, will be measured by the Aviation Charter scorecards and on their performance in addressing the skills shortages and training for positions noted earlier.

Pilots

With the fast-growing population in Africa and demand for air transport expected to double over the next 10 to 15 years, as mentioned earlier, this will drive demand for around 1000 new commercial aircraft in Africa requiring around 20,000 pilots to operate these aircraft. It is essential that we take action to maintain stability in this area of the airline operation.

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In South Africa, the transformation of the pilot group and inclusion of more black and female pilots is an area where airlines have long been criticised. Progress is being made, but the rate of change has not been as high nor as fast as one would like. To accelerate this process, we need to address these three critical factors:

- **Funding.** As noted earlier, South African airlines operate at an aggregated loss and those that are profitable are on slender margins. As a result, what funds are available also have to cover items such as fleet replacement in addition to operating costs. Depending on the airline, pilots account for between 8% to 10% of total airline headcount. Pilot training and development costs are high - estimated at R1.75 million to take a pilot from initial training to a full Airline Transport Pilots Licence qualification. Carriers also require funds to provide statutory and general training for the other 90% of their staff and therefore funding for pilot development is limited. Funding solutions need to be established and identified for pilots through government, public and private initiatives.
- **Cadet Schools.** Many South African airlines established cadet pilot programs as far back as the 1990's, but funding has remained a challenge. Some, such as the SAA programme have unfortunately been suspended or closed. Other airlines such as Comair and Airlink have their own in-house Cadet Pilot training initiatives. We are aware that similar problems are prevalent across the region affecting our regional airlines. On the other hand, Chinese-funded, well-equipped, expertly-staffed flying schools are in South Africa dedicated to turning out pilots ready to take their seats on the flight decks of China's rapidly expanding airlines. Clearly, a coordinated approach involving all industry is required. If agreed to by the airlines, AASA could look to coordinate this initiative together with industry experts.
- **Making flying an attractive career option.** Building on some of the ideas we have mentioned for school going learners, we have to make being a pilot a job that enough young people - especially black women and men - want to do.

Retention and Transfer of Skills

Airline executives and African aviation authorities are concerned about the exodus of skilled aviation professionals from Africa to so-called greener or "sandier" pastures.

Besides stemming the exodus of young blood, we also have to ensure there is a pipeline of talent ready to take over from those people leaving the industry through retirement over the coming years. This will require the structured and coordinated transfer of skills to the new generation of aviation professionals.

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A useful example is in civil engineering, which I left when the aviation bug caught me many years ago. The South African Institution of Civil Engineering 2017 Infrastructure Report Card for South Africa included these graphs for public service engineers, reflecting an encouraging trend from 2005 to 2015 showing the emergence of new black engineers (both male and female), with the older white engineers retiring or leaving the profession. We don't have statistics for the airline profession but I would suggest that the shape would be fairly similar.

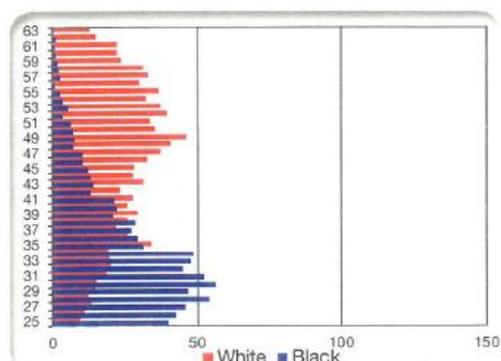


Figure 1: Population pyramid of civil engineering staff by race in 2005 (Lawless 2017)

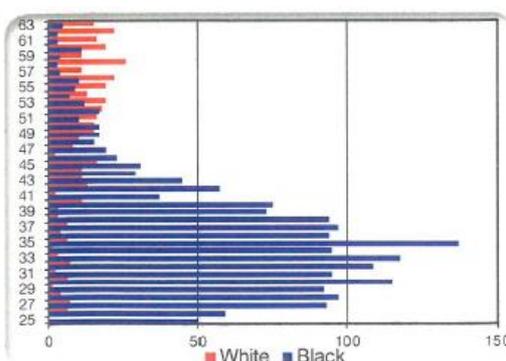


Figure 2: Population pyramid of civil engineering staff by race in 2015 (Lawless 2017)

As the older airline professionals move out of the industry, and the previous missing middle move to fill these senior positions, I would suggest a structured mentorship program is put in place to support the transfer of skills - particularly in those critical and scarce skills areas we've identified. Once again, if there is agreement with the airlines, this is a further area where AASA could play a coordinating role.

Coordination of Training Initiatives in Africa

It is fair to say each airline is focusing on its own training needs. But I would venture to state that, from a cost and efficiency basis, a more coordinated plan could benefit the industry as a whole. There are a number of areas where over and above the airline arranged training, this already occurs and could provide a further springboard for further alignment. They include the following:

- **ICAO's Next Generation of Aviation Professionals (NGAP) Outreach.** This was established to ensure sufficient qualified and competent aviation professionals are available to operate, manage and assure the future of the international air transport industry.
- **The African Aviation Training Organization (AATO).** AATO was established in 2013 through ICAO to promote cooperation among its members in Africa through collaboration of Aviation Training

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Organizations (ATO's), and to be a link between training organizations, airlines, maintenance organizations, airports, air navigation service providers and the regulators.

- **IATA's Airline Training Fund (IATF)** is a provider of airline specific training to its members. AASA has entered into an agreement with IATA for the provision of five courses between October and December 2017 in Johannesburg, hosted by AASA and some Member Airlines and we trust that this will continue into 2018.

The New Business Environment

The world is changing at a rapid pace and so are employee needs especially as the younger generation of millennials come into the work space, bringing with them a refreshing new perspective on their ideal working environment and career. However, while leaders are adapting to new organizational models, Human Resources are struggling to keep up with technological developments.

I look forward to presentations by both Mr. Paul Steele, Senior Vice President of IATA and Mr. Nawal Taneja, our guest from the USA, who will speak to this subject from their different perspectives.

In conclusion, this is only the beginning of a journey in tackling the exciting challenge of building and developing a human capital structure for aviation in Southern Africa and for the rest of Africa. In the time available, I have only scratched the surface.

As I said in my opening, we have many challenges to navigate. However, in one area we have not always paid sufficient attention, and this is to our most important resource - our people. It's time to change tack if we want to avoid running aground.

Thank you.

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