



46th AFRAA ANNUAL GENERAL ASSEMBLY

REPORT OF THE SECRETARY GENERAL

By

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Secretary General

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ALGIERS, ALGERIA

INTRODUCTION

Mr. President, distinguished guests, ladies and gentlemen; allow me now to present to you the customary report of the Secretary General. This is a summary. The Annual report is included with your AGA documentation.

This report will be structured as follows:

- Performance of the industry globally and in Africa
- Main Secretariat activities during the year
- The future challenges and opportunities
- Conclusions

A. STATE OF THE AIRLINE INDUSTRY

Africa has the potential to be a significant force in aviation on the back of robust economic growth forecasts, with Africa having among the fastest growing economies worldwide.

The areas I will briefly cover are shown on the screen.

- African Air Transport Growth Prospects
- Tourism
- Global Airline Industry Performance 2013
- Airline Global Performance
- African Airline Performance
- Freight Traffic
- Fleet Composition and Development

➤ Jet Fuel Cost

African Air Transport Growth Prospects

The performance of the African aviation industry is lagging behind those of the rest of the world at less than 3% of global RPKs. The growth is heavily constrained by poor safety perception, slow implementation of the Yamoussoukro Decision, the high industry costs, inadequate infrastructure at several airports, lack of a single traffic rights negotiating body with respect to third parties like the EU. Nonetheless, demand for air transport has increased steadily over the past years with passenger numbers and freight traffic growing significantly.

Tourism

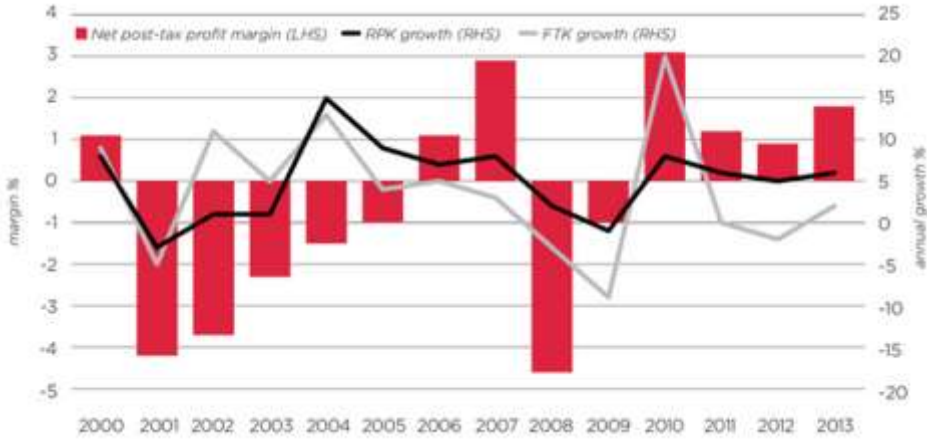
According to UNWTO, international tourism arrivals reached 1.087 billion in 2013; 52 million more than in 2012.

Over the last decade, international tourist arrivals to Africa have repeatedly outgrown results in other regions. By 2030, Africa's international tourist numbers could grow from its current 56 million to 134 million and a rising number of African countries have embraced tourism as a priority for their development.

According to the UNWTO, tourism accounts for 7% of all exports in Africa and 58% of its service exports and is one of the most important sectors for the economies of the continent. To fully realize the potential tourism has in promoting growth and development in Africa, it is imperative to work towards a better alignment of tourism and air transport policies in the region.

Global Airline Industry Profitability 2013

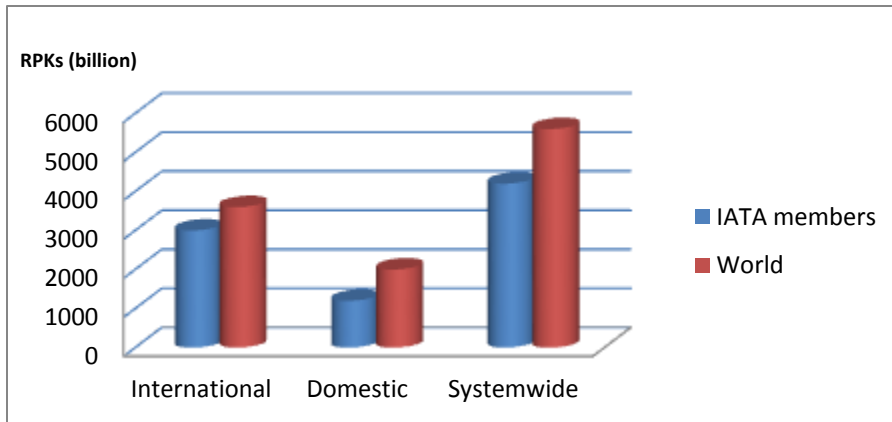
Airlines saw improved profitability in 2013. IATA reported that airlines made a net post-tax profit of \$10.6 billion in 2013 up from the \$6.1 billion profit made in 2012. Profitability in 2013 was achieved largely on increased demand, the positive impact on cash flow of industry restructuring, and slightly lower than expected fuel costs. In 2013, African airlines made a loss of about \$100 million but are expected to make a profit of about \$100 million in 2014.



Global Traffic Performance

According to IATA, Global passenger traffic measured in RPKs improved by 5.7% in 2013 compared to 2012. International markets had an increment of 6.1% while domestic markets grew by 5.2%. The average load factor increased to 79.7% from 79.2% in 2012.

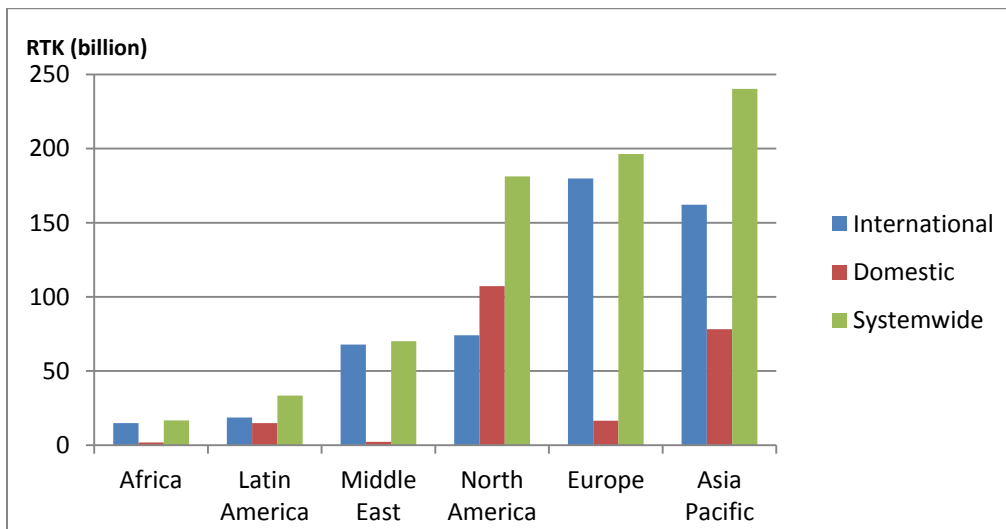
IATA Share of World's Scheduled Passenger Kilometres (RPKs) 2013 (Billions)



Source: IATA WATS/AFRAA

Scheduled world cargo traffic (FTK) increased by 1.8% in 2013 compared to 2012. Overall, scheduled revenue tonne-kilometres increased by 4.7% and available tonne kilometres by 4.5%.

Revenue Tonne-Kilometres per Region - IATA Schedule Services 2013



Source: IATA WATS/AFRAA

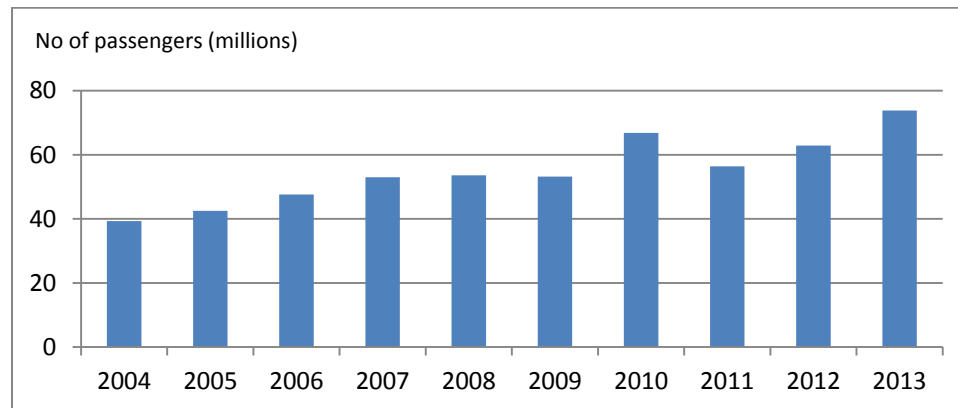
African Airlines Performance

Passengers Carried

Demand for passenger services accelerated growth in 2013, reflecting the rebounding global economy and an increase in world trade. Business confidence strengthened to its highest level since 2011, but the trend is levelling out.

Passenger numbers have grown consistently year on year since 2004 except in 2011 where the numbers dipped as a result of the Arab Spring and political instability in parts of North Africa. From less than 40 million passengers carried in 2004 by African airlines, passenger numbers increased to 73.8 million in 2013.

Total Passengers Carried by Market: 2004 - 2013



Source: AFRAA

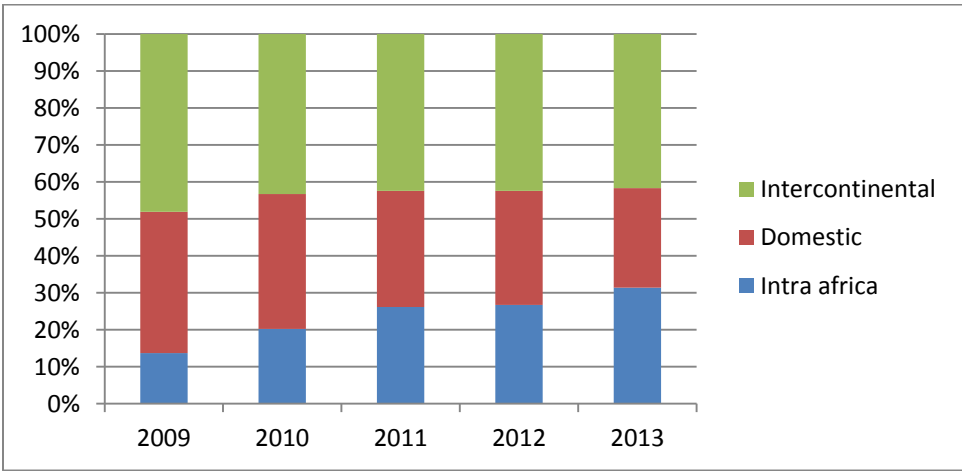
A robust GDP growth was experienced in 2013 in Africa as a result of buoyant public and private investment in mining activities, infrastructure for transport and communication, and energy production. Some African airlines continued their aggressive network expansion, new markets development and further penetration of their domestic and intra-Africa markets. As a result, passenger numbers increased in all markets.

Domestic, Intra-Africa and Intercontinental Passengers

Domestic passenger numbers increased to 28 million due an increase in access to air travel, lower fares in some markets and new routes launched in 2013. Low costs airlines, particularly in South Africa, Kenya, Morocco and Tanzania continue to aggressively promote and attract more passengers, some of whom had never flown before. On the intercontinental routes, passenger numbers went up to 30.7 million in 2013.

With a population of over 1.1 billion, spread across the vast the continent of 54 countries, there is huge potential for growth in intra-Africa air travel. The major constraint to this growth is the slow pace of liberalisation and the over-dependence on Bilateral Air Services Agreements (BASAs) by many States.

Percentage Share of Passengers Carried by Market: 2009 - 2013

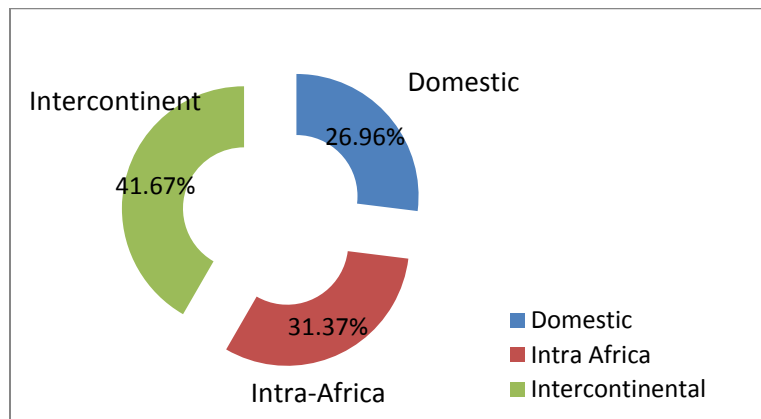


Source: AFRAA

Passenger Distribution

Intercontinental passenger market segment remains the biggest at 42% of the total. The domestic market segment represents 27% while the intra-Africa market is 31%.

African Airlines Passenger Distribution 2013



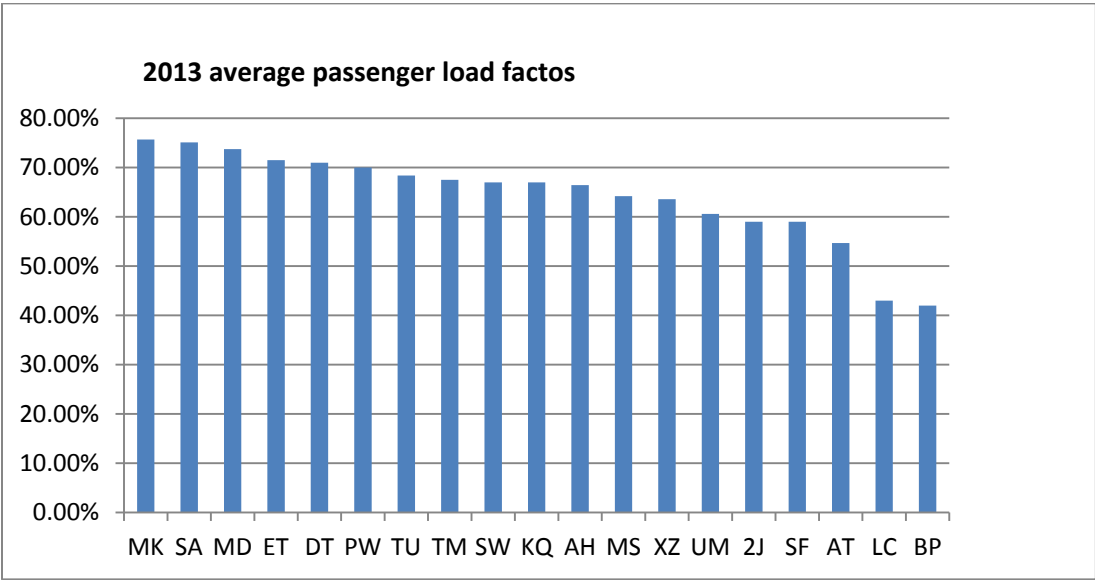
Source: AFRAA

Passenger Load Factor

Many African airlines continue to see inefficiencies and poor load factors due to the imbalance of capacity and demand, limited commercial cooperation and uncoordinated intra-African networks with other African operators. In addition, the deployment of high-capacity aircraft on low and mid-density markets drives down load factor and acts as a disincentive to more frequency where it may be needed.

The average passenger load factors (PLF) was 69.6%. This compared unfavourably to the global average load factor of 79.7% in 2013.

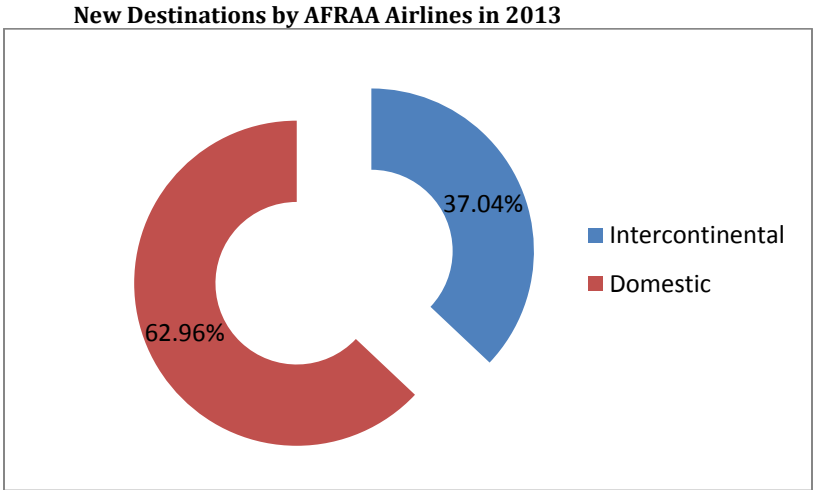
Passenger Load Factor of some AFRAA Airlines in 2013 (%)



Source: AFRAA

New Routes

AFRAA airlines in 2013 continued with their aggressive route expansion with 54 new routes being launched by 11 AFRAA member airlines. Of these, 20 destinations were intercontinental with the remaining 34 within the continent.

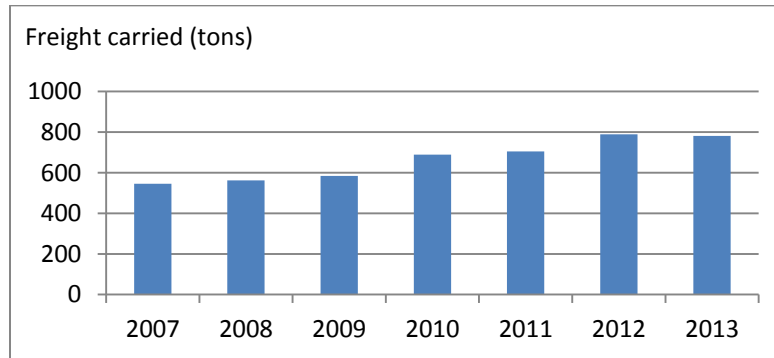


Source: AFRAA

Freight Carried and Traffic

Air freight shipment in Africa is still very low. In 2013 the continent airlines carried about 781,000 tonnes of freight, representing 1.57% of global air freight shipment.

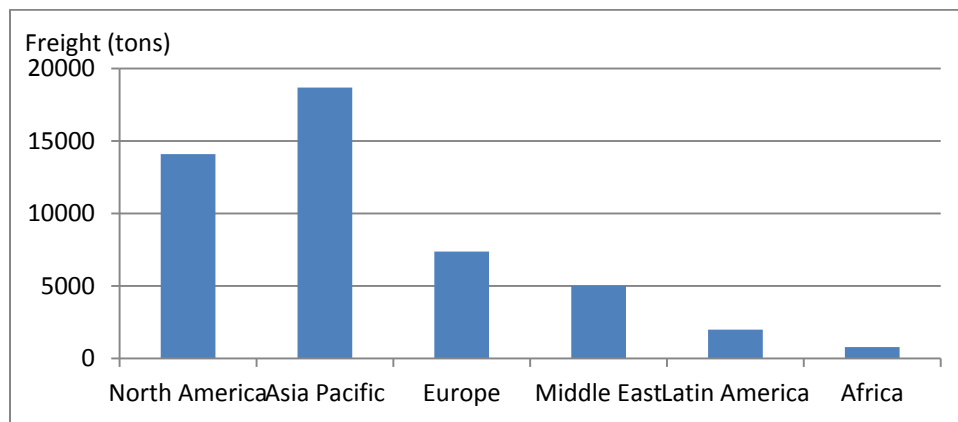
African Airlines Year-on-Year Freight Carried (tons)



Source: AFRAA/IATA WATS

The failure by many African airlines to develop the cargo component of their operations has led to dominance of the intercontinental sector by non-African airlines.

Freight Carried by Region (tons) - 2013



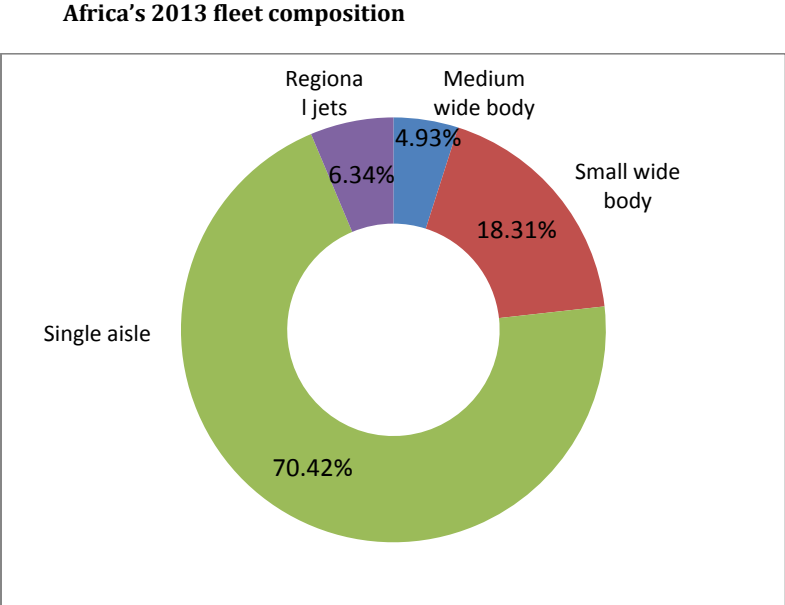
Source: AFRAA/IATA WATS

Fleet Composition and Development

Global commercial airline fleet in 2013 was composed of 20,910 airplanes and is expected to rise to 42,180 airplanes in 2033 according to Boeing Market Outlook. The total cost of the additional fleet is estimated at over US\$5,200 billion.

Africa currently has 700 aircraft which makes up 3.2% of the total global fleet.

Boeing forecast Africa to require 1,080 new airplanes over the next 20 years, about two-thirds of which will expand the region’s fleet. The total number of commercial aircraft to be in operations in Africa by 2033 will double to 1,420.

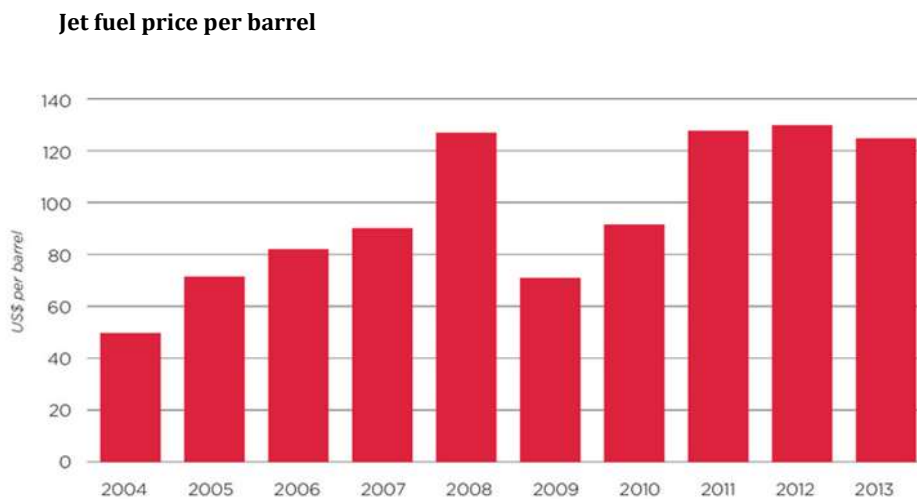


Source: Boeing Market Outlook

By 2033, it is forecast that about 77% of the expected new aircraft will be single aisle and regional jets, a clear indication of the anticipated growth in intra-Africa and domestic travel. About 23% of the fleet will consist of medium and small wide body aircraft.

Jet Fuel Cost

According to IATA, jet fuel averaged \$124.5 a barrel during the year under review. In 2012, jet fuel averaged just under \$130 a barrel. Fuel continues to be the largest component of airline operating costs, accounting for 31% of airline costs worldwide but about 40-50% in Africa.



B. AFRAA SECRETARIAT VALUE ADDED ACTIVITIES

The activities of the Secretariat are guided by the AFRAA Business Plan approved by the Executive Committee. I now highlight the activities by the Secretariat to meet specified targets. The areas I will highlight are shown on the screen.

1. Safety

Safety is the top priority of AFRAA but still remains a major challenge. To enhance safety, AFRAA is committed to work with several stakeholders including

ICAO, AFCAC, IATA, AASA and regional economic communities.

Currently 40 African airlines are IOSA Certified and the number of airlines preparing for IOSA certification continues to increase.

Following endorsement by African Heads of State to make IOSA mandatory for all airlines in 2013, AFRAA is working closely with IATA, AFCAC and ICAO to facilitate the achievement of the safety targets for Africa by 2015 mainly through capacity building and providing advisory services for airlines preparing for IOSA audits.

2. Training and Human Capital Development

It is AFRAA's strong belief that future challenges of the industry require intensive capacity building. In 2013 AFRAA conducted 17 training courses, workshops and seminars. In collaboration with the IATA Airline Training Fund (IATF) 6 courses and workshops were conducted. I would like to thank IATA and particularly Oscar Haro who is here today and is doing a wonderful job in supporting the training needs of African airlines.

World class African training centres in Egypt, Ethiopia, Kenya, Libya, Kingdom of Morocco, Seychelles, South Africa and Tunisia are on the AFRAA website and Annual Report to facilitate bilateral co-operation among airlines.

3. AFRAA Fuel Project

AFRAA in 2011 launched the joint fuel project. Following the initial success, the third tender was issued in 2013 for jet fuel procurement in 2014 with savings of up

to \$30 million being anticipated. The number of participating airlines is 14 and the pooled fuel volumes are over 1.24 billion litres. Negotiations are on-going for the 2015 tender and expected to conclude by the end of November.

4. Taxes, Fees and Charges

Taxes, fees and charges on African airlines fuel and passengers are among the highest in the industry. AFRAA and IATA have continued lobbying to reduce charges, fees and taxes on fuel.

AFRAA, AFCAC, IATA, UNWTO, ICAO joined hands in lobbying against the introduction of a travel tax which would have meant an additional tax burden of \$10 per international passenger and extra \$2.00 for international travellers staying at African hotels.

5. Route Network Coordination

AFRAA launched a Route Network Cooperation Committee this year aimed at optimising the schedules of participating airlines, develop virtual alliances and deliver incremental revenues. 12 airlines are participating in the project.

6. Ground Handling Cooperation

AFRAA also this year launched the Joint Ground Handling Project to address some of the common challenges faced by airlines at some airports as well as reducing costs. Seven airlines are currently participating and with the success of the first tender, we expect the numbers to grow.

7. Regulatory Issues

Aero-political and regulatory priorities throughout the year were focused on the finalisation of all the regulatory documents required for the full implementation of the Yamoussoukro Decision (YD), promoting the adoption of the Montreal Convention of 1999 by all States, lobbying for more States to accede to the Cape Town Convention and Protocol, lobbying against the EU banned list as well as updating airline legal and regulatory affairs officers of global and regional developments in the sector.

8. Land Development

AFRAA has a piece of valuable unused land at its headquarters in Nairobi. The Association is in the process of detailed evaluation of proposed office development which when completed will generate additional revenue. This will enable AFRAA to fund more activities for the benefit of members.

9. Communication and Information Dissemination

One of the key areas of focus by AFRAA is to enhance the knowledge base of its stakeholders about developments within the African aviation industry. Stakeholders now receive regular communication through a variety of publications.

AFRAA consistently publishes a monthly e-newsletter, bi-monthly CEO's brief, quarterly Africa Wings magazine, make regular press releases and media interviews designed to promote the image of African aviation. The world class MROs, training centres, and simulator providers are featured in our website and Annual Report.

10. New Members and Partners

In 2014, AFRAA admitted into its membership the following airlines:

- Air Uganda
- Astral Aviation (currently the only cargo carrier in Africa)
- Cabo Verde airlines
- Syphax Airlines based in Tunisia and
- Tassili Airlines based here in Virgin Nigeria

In addition 3 partners joined the Partnership programme namely Air Transportation Support Group, TAV and Mitsubishi. AFRAA welcomes the new members and partners into its fraternity.

11. Working with other Organisations

AFRAA cooperates with the African Union Commission, NEPAD, AfDB; other major industry organisations including IATA, AASA, AACO, ICAO, AFCAC, ACI-Africa; governmental and non-governmental bodies, Regional Economic Communities (RECs) – ECOWAS, EAC, COMESA, SADC, UEMOA; manufacturers and service providers. This collaboration accords AFRAA goodwill and a broad framework resources and assistance that benefits members, protecting their interest and provides support for better economic environment for their operations.

12. Recovering Intercontinental Market share

AFRAA held a number of meetings with the African Union Commission during the course of the year. These included a meeting in October 2014 with the Chairperson

of the African Union Commission, Her Excellency Dr Dlamini-Zuma, with Chairmen/CEOs of some airlines namely EgyptAir, Ethiopian Airlines, Kenya Airways, South African Airways and TAAG Angola Airlines.

These interactions enabled the industry to present to the AU the various challenges they are confronting resulting in African aviation being a marginal player in the global airline industry, for which the AU and government support is sought. African airlines share the same vision with the AU for a single African aviation market in the shortest time possible.

AFRAA hosted a joint AU/AFCAC/AFRAA conference in Nairobi which finalised the elaboration and validation of the regulatory and institutional framework for the Yamoussoukro Decision thereby removing all legal impediments to full implementation of the Decision as we heard earlier from the AU Commissioner and the Secretary General of AFCAC. Mr President, the long awaited full implementation of the YD is now in sight.

AFRAA will play a leading role in facilitating the operationalisation of the Decision to ensure a level playing field and the orderly development of the industry.

C. FUTURE CHALLENGES AND OPPORTUNITIES

In this section I highlight the major future activities and opportunities for African aviation that are shown on the screen:

- Safety

- African carriers recovering intercontinental market share
- Industry costs
- Improved infrastructure and use of the latest ICT technologies
- Human capital development.

a. Safety

Going forward, safety will continue to be the greatest challenge facing African aviation. AFRAA will strengthen collaboration with various organisations particularly IATA, AFCAC and ICAO to jointly facilitate the attainment of industry best practices in safety.

AFRAA will assist airlines to attain and maintain IOSA registration by providing training as well as facilitating cooperation and assistance among African Airlines particularly in availing expertise and sharing of experiences in this area. AFRAA has teamed up with Aviation Compliance Solutions (ACS), an IATA IOSA approved auditing firm, to develop IOSA auditors so as to reduce cost and make it more affordable for airlines to obtain and maintain IOSA registration.

b. African Carriers Recovering Intercontinental Market Share

Currently non-African carriers transport about 80% of the intercontinental traffic to and from the continent. It is critical that African aviation plays its part in ensuring the economic, social and political integration of African States. In this regard, AFRAA applauds the collaborative efforts by the African Union, AFCAC and other stakeholders to facilitate the speedy full implementation of YD.

With the full implementation of the YD being in sight, it is anticipated that the AU will negotiate ASAs as a block like the EU, ensuring an even playing field. It is also expected that states will avoid favouring non-African carriers by granting more frequencies of services by some States that are denied their African counterparts, ensuring that costs of doing business in Africa are competitive.

c. Industry Costs

The Association will continue to sensitize and lobby Governments, airports and other service providers on the need to reduce taxes and charges and improve efficiency and services as well as the removal of monopoly service providers to facilitate efficiency and provide choice to carriers. As this requires collaborative effort we will work closely with all relevant stakeholders.

d. Improved Infrastructure and Use of Technology

Currently, aviation infrastructure in many African States is deficient and not coping with the growing airline traffic. There is need for the relevant authorities to be proactive and plan for the expected rapid expansion of African aviation.

The industry is behind the world in the adoption of cost effective technologies. It is important to take advantage of the latest information communication technologies including the use of mobile telephones, to minimise operating costs.

e. Human Resource Development

AFRAA will continue to strengthen the training unit to increase the number of training programmes that benefit members. We will continue to strengthen

collaboration with IATA, our partners and others to jointly hold courses and seminars to keep African airlines abreast with the latest developments in the industry.

AFRAA will also continue to market the world class training facilities at member airlines including in Algeria, Egypt, Ethiopia, Kenya, Libya, Kingdom of Morocco, South Africa and Tunisia.

D. CONCLUSIONS

Ladies and Gentlemen: Thank you for your commitment and dedication. We have recorded many successful achievements but also face several challenges.

AFRAA will continue to work with member airlines, its partners and other stakeholders so that collectively, we can overcome the challenges that confront us.

I would like to end by thanking the Executive Committee and my Chairman Mr Monwabisi Kalawe for their wise counsel and guidance that has allowed AFRAA to continue to record significant positive changes.

Thank you for your attention