

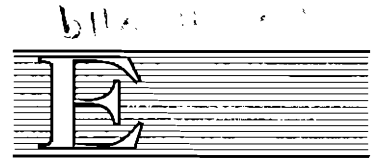


**UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL**

ECONOMIC COMMISSION FOR AFRICA

Meeting of working group for the preparation
of the Conference of African ministers responsible
for civil aviation

20-22 October, Nairobi, Kenya



Distr. : LIMITED

ECA/RCID/45(k3)/98
October 1998

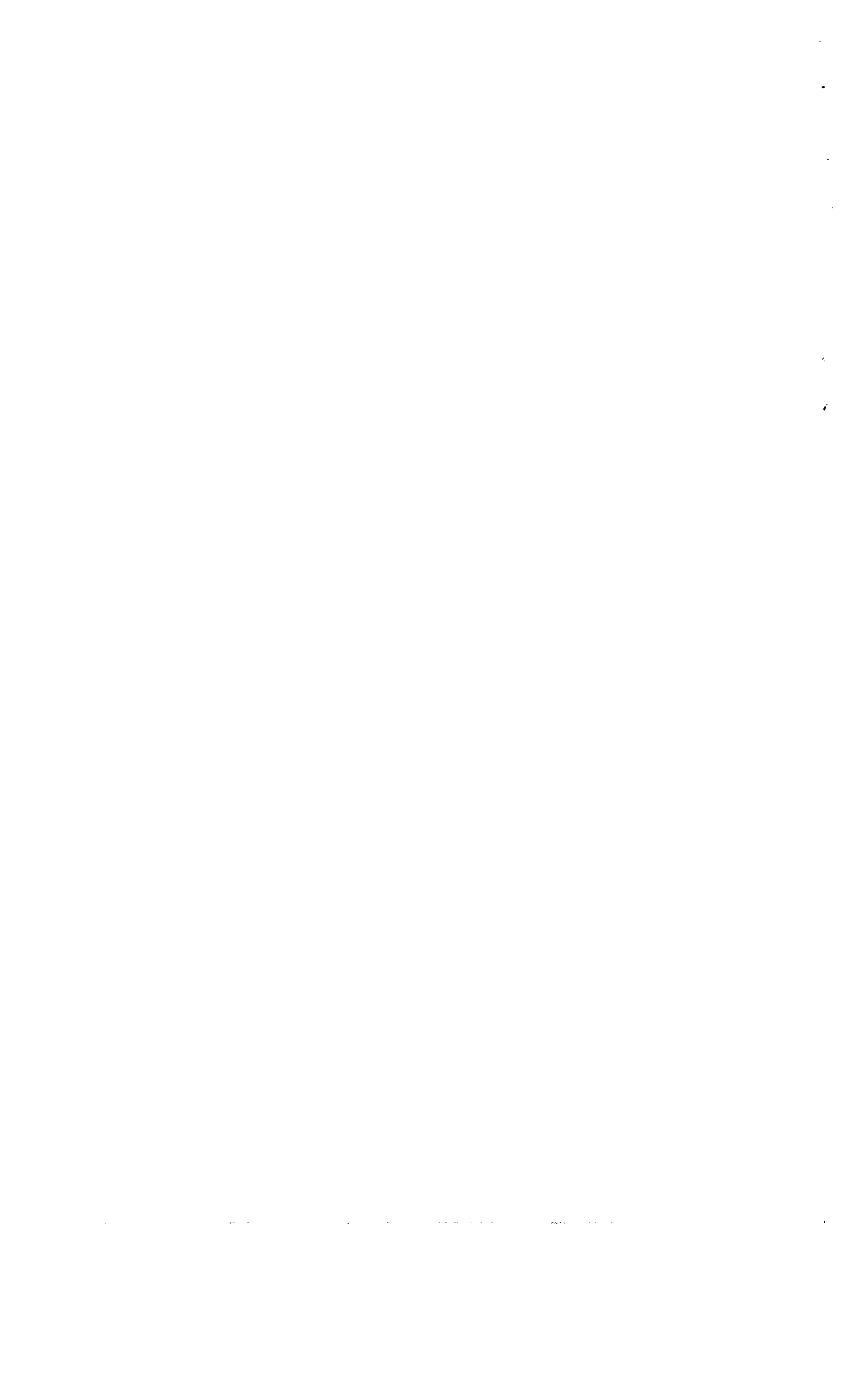
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Original: ENGLISH

AFRICAN AIR TRANSPORT - Challenges and Proposals

(Prepared by AFRAA)

Summary

This paper provides an inventory of major African aviation issues as the next millennium approaches and beyond on which greater focus by all stakeholders will be needed.



**FIRST MEETING OF THE PREPARATORY COMMITTEE
ON THE CONFERENCE OF AFRICAN MINISTERS
RESPONSIBLE FOR CIVIL AVIATION**

Nairobi, October 20 - 22, 1998

AFRICAN AIR TRANSPORT - Challenges and Proposals

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1. Introduction

1.1 African civil aviation is undergoing a rebirth. After years of suffering under the bureaucratic inertia of State control, the shackles are gradually being broken as more and more airlines have been given administrative and financial autonomy. Out of this change, it is hoped that a new breed of airlines will emerge better equipped to meet the challenges of the next millennium.

1.2 However, from the analysis of the current state of the African air transport industry, it is evident that many of the airlines in Africa and in particular those operating international services would have difficulty in maintaining their current form and shape in the next millennium.

1.3 Africa starts out with inherent disadvantages at the dawn of the second millennium, the catalogue of which includes, among others :

- Geopolitical issues - challenges of change
- Airline/Market fragmentation
- Competition - the challenge of international competition
- Route network
- Airline Viability/Operations
- Finances
- Infrastructure deficiencies
- Human resources development

2. Major Challenges

2.1 Geopolitical Issues - Challenges of Change

2.1.1 Two groups of geopolitical issues will shape the future of the African air transport industry.

World-wide Liberalization

2.1.2 The first relates to the challenges resulting from world-wide liberalization and creation of global alliances. Already African countries are feeling these changes, i.e. Europe has completed its internal liberalization and is endeavouring to extend internal liberalization concepts in its relation with third countries. The US African Aviation Initiative is targeting Africa, initially through third part code share arrangements and adoption of open skies policies. Other regions of the world are also liberalizing.

Changing Policies at national level

2.1.3 The second relates to the changing policies at the national level. Over the last couple of years, there has been a shift in government thinking that has compelled governments to assess whether civil aviation as an industry could not be organized in a manner that would enable it to attract private capital, the role of government being limited solely to regulatory matters and creation of an enabling environment for the operation of civil aviation.

Past Inaction

2.1.4 In the face of these developments, African air transport remains hostage of past inactions and lack of political will unlike the developments in other parts of the world - Europe, Latin America, etc.. The long debated intra-Africa liberalization has yet to be implemented, as well as the establishment of a single aviation market and a joint approach to the outside world.

2.1.5 In the emerging competitive environment, privatization and linkage with other airlines is being considered by many African governments as offering opportunities. While various models of transforming African airlines have been proposed, including international airline strategic partnership and other regional arrangements, it seems clear now that the hope of succeeding by going it alone is not on the cards. Civil aviation is becoming far too expensive for a single carrier.

2.1.6 The global challenge cannot be tackled individually by small carriers or countries. It is difficult enough to compete even when you are big. To attempt to compete single handedly is an uphill task. To start with, it is expensive in the sense that you are trying to sell a market considered sub-economic in the global economy. In this circumstance, grouping of airlines and States becomes immediately exciting and offers considerable potentials.

2.1.7 There is nothing new in this concept which dates back to 1964 when the idea was put forward at the African transport conference which created AFCAC. The Yamoussoukro Declaration of October 1988 endorsed it. So have other African regional bodies such as OAU, ECA, ECOWAS, SADCC and COMESA, etc..

2.1.8 Apart from this, there is lack of collective bargaining. Although there are internal factors such as lack of binding institutional framework contributing to this trend, a great deal has to do with lack of cohesiveness and unity of purposes among African countries and airlines.

2.2 Airline/Market Fragmentation

2.2.1 The fragmentation of the African air transport industry into small units borrowed from the post-independence era stands out among the plethora of issues that will require greater focus by African government and airline management as the next millennium approaches. Without some degree of consolidation, African airlines will continue to be small, fragmented and for the most part inefficient lacking the necessary size and economies of scale.

2.2.2 African airlines with a fleet of approximately 540 aircraft are small by world standards. Even the largest African airlines are smaller than any of the major US airlines and most European airlines. Some individual airlines in Europe, North America and Asia perform more tonne kilometres than the African airlines combined.

2.2.3 Airline and market fragmentation will continue to impede African airlines from attaining the economy of scale needed for being a credible player in international civil aviation.

2.2.4 There is no doubt that the concept of "flag" carriers as symbol of nationhood and sovereignty will have a lesser importance as a result of privatization for some countries and massive withdraw of government support for others and establishment of privately owned airlines.

2.2.5 It is forecasted that more privately owned airlines will be established competing with the national airlines on the domestic and regional route and at times on the intercontinental route, initially mounting services to points abandoned by the national airlines.

2.2.6 It is expected that very few African airlines will have a substantial transcontinental routes. Most African airlines will be reduced to regional and niche operators by market forces.

2.2.7 Greater political will and commercial determination will be needed more than ever before for African airlines to link up operations and mount joint flights. The smaller regional airlines within the sub-regions will be encouraged to enter into commercial or other arrangements with one or another of these international operators.

2.3 Route Network

2.3.1 While the route network of African airlines has been characterized by a poor regional route network and a greater focus on route development mostly to European capitals usually those associated with previous colonial presence, it is expected that regions other than Europe will receive more attention, in particular the USA, Middle East and Asia.

2.3.2 On the intra-African routes, the number of airlines and frequency of service will increase as more cities will be linked and more airlines enter the market.

2.4 Airline Viability/Operations

2.4.1 The viability and operations of African airlines which have been characterized in the past by overall poor competitiveness and high operating costs will be projected well into the next millennium. It is unlikely that in their present form and size, most African airlines will be able to improve substantially their competitive position as well as lowering operating costs.

2.4.2 African airlines do not have the size to achieve lower operating costs on an individual basis. They

- do not have enough personnel to justify in-house training facilities and as a result must pay high training costs;
- have little saving possibilities on purchase of aircraft, spare parts and other supplies needed for operation;
- have expensive maintenance cost done outside and high insurance cost;
- have low productivity levels.

2.4.3 The measures that the airlines should take are well known and those that will be able to reduce their costs will have a better chance to continue as an airline.

2.4.4 Those African airlines that will be able to improve their overall competitiveness through higher service standard, better frequency and convenient scheduling, better yield and revenue management and competitive fare structure will increase their chances of remaining in the business.

2.5 Increased Competition

2.5.1 To the already existing long list of challenges must be added the anticipated increased competition. Strong foreign competition and competition among African airlines will accelerate. The establishment of privately owned airlines has increased the number of airline capacity in the same market.

2.5.2 The Africa-Europe route will largely be dominated by the bigger airlines that have world-wide reputation, extensive world-wide route networks and have at their disposal powerful marketing tools in the form of global frequent flier programmes. As a result the share of foreign competitors will increase while the share of African airline will further shrink.

2.5.3 Bigger carriers are expected to lower fares to levels below the cost of most African airlines to eliminate smaller African airlines from the market.

2.5.4 Competition on the intra-Africa routes will take a new dimension as bigger airlines will increase their regional penetration through code-sharing, franchising and other innovative commercial agreements.

2.5.5 From a broader policy perspective, code sharing, and in particular third party code share arrangements will have serious implication for African airlines. African States should be cautious not to authorize code share services which will retard the development of air transport in Africa and jeopardize the effective participation of African airlines in international air transport.

2.5.6 As the liberalization of the economy takes strong foothold and the forecasted growth in the economy and traffic materializes, more foreign airlines will operate into Africa.

2.5.7 In order to be able to cope with the growth and to ensure a proportional share of the growing market, African governments and airlines will need to take action to position their airlines to be beneficiaries of this growth.

2.6 Infrastructure

2.6.1 The anticipated improvements in the operations of African airlines have to be accompanied by upgrading of the infrastructure, facilitation and improvement in safety. Without matching improvements in these areas, any gains the African airlines will make will have little or no impact.

2.6.2 The trends towards making airports and air traffic services autonomous is a welcome development. However to be effective, the autonomous entities being established must be truly independent and must be empowered to retain all user charges levied and be authorized to plough back the funds to airport developments, improvements of air traffic services (ATS) and infrastructure and the training of ATS staff.

2.6.3 In the long run African governments must commit themselves to the regional implementation of CNS/ATM.

2.6.4 African States must reaffirm their safety oversight responsibilities and comply with internationally agreed standards, using to the fullest extent possible the ICAO Safety Oversight programme.

2.7 Finances

2.7.1 Several forecasts, including ICAO and aircraft manufacturers' have different growth index for Africa. However, AFRAA's own forecast indicates that Africa will need some 707 aircraft to accommodate traffic growth and to replace their ageing fleet up to the year 2015. African airlines will require 388 aircraft for replacement and 176 aircraft for growth. The investment requirement will be of the order of US\$ 38 billion plus an additional US\$ 5 billion for other facilities or a total of US\$ 43 billion.

2.7.2 The African aviation industry will hence face a major problem of securing these funds. The airlines, though marginally profitable, will not generate sufficient funds from their operation. Grants and injection of capital from owner governments is drying up. The airlines have to rely solely on external borrowing. For this to happen, the airlines have to improve their balance sheet.

2.8 Human Resources Development

2.8.1 During the next 20 years, it is projected that African airlines will have to train 3600 pilots and 12,000 technicians to accommodate attrition and growth. Looking at the available training institution in the continent, it is obvious that existing facilities will not be able to cope with the high number of staff to be trained. Governments have to start thinking in term of being able to produce the skilled manpower requirements and putting up the necessary facilities to cope with this increased demand for training.

3. Prospect

3.1 Long dismissed as the stagnant backwater of the world economy, Africa is beginning to stir as a result of the political and economic reform of the past couple of years. Economic growth is rising robustly for the first time in 20 years. The continent is much more peaceful although there are still pockets of civil upheavals.

3.2 Although the airline industry in Africa will still be influenced by many external factors - growth in the regional economy, international trade, tourism, balance of payment, levels of profitability, a comprehensive strategy will be required if the airlines of Africa are to survive.

3.3 First, African policy makers and airline managements need to be aware of the challenges of the next millennium. Awareness of the challenges would mean that the problems of size of African airlines must be improved.

3.4 The advantage of larger groupings are apparent even if one does not wish to consider the challenges of economic globalisation. Put against the background of the unstoppable tide of globalisation, African airlines would be doomed to a state of continued marginalisation unless they implement regional integration. The "go it alone" option is not the way for the future. Extensive cooperation and joint use of facilities at continental and sub-regional level is the way forward.

3.5 Traffic rights within Africa must be liberalized for African carriers and African governments must start thinking in terms of a single aviation market. Infrastructure and aviation safety must be improved.

3.6 Secondly, African airlines and government must have the will and commitment to change and establish a binding institutional framework for policy formulation and implementation - moving from the rhetoric of the past to affirmative actions.