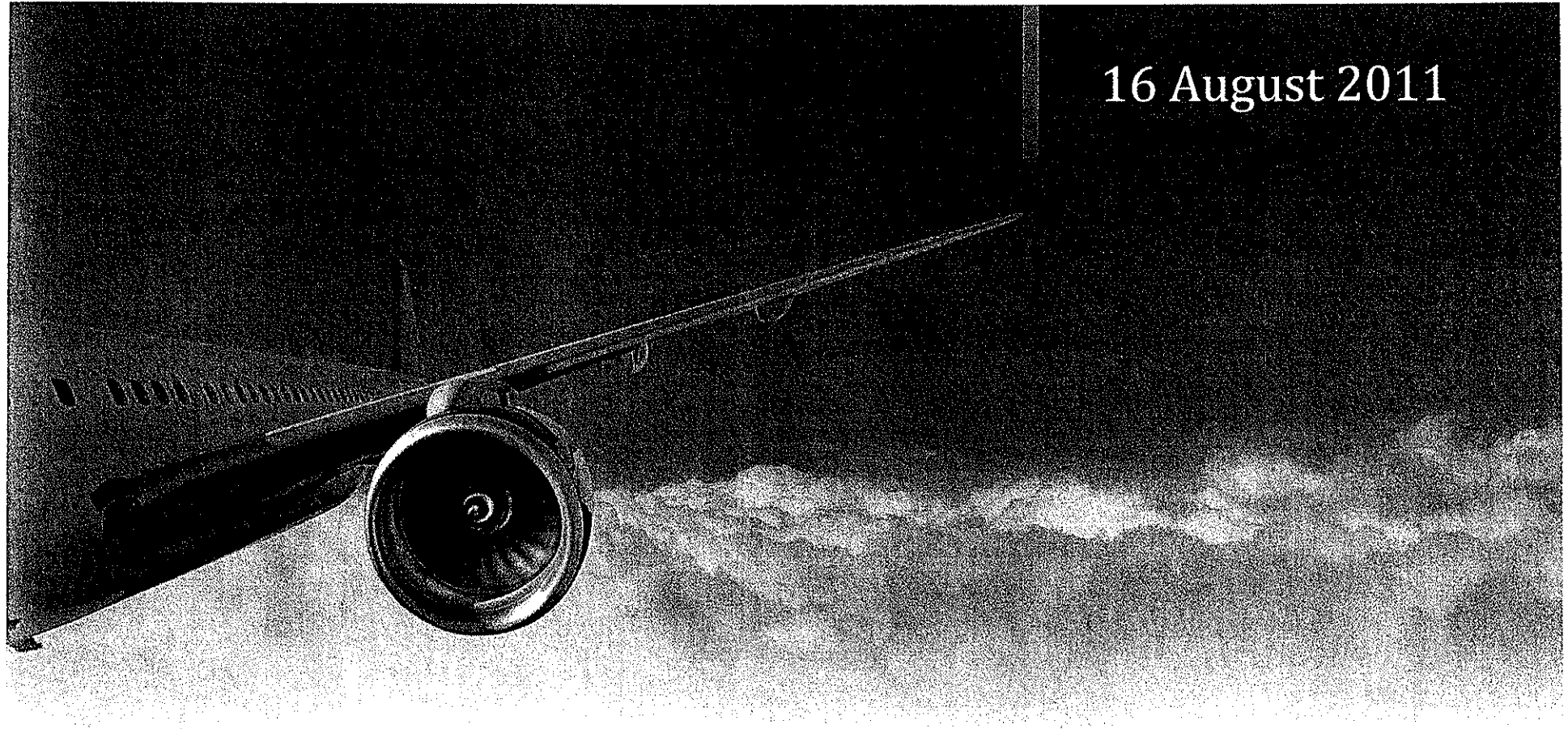


16 August 2011



# South African Airways

Portfolio Committee on Tourism Meeting

# SAA Already Plays a Strong Role in South African Tourism

*All SAA businesses strongly support the tourism sector*

## SAA Group



Premium airline



Aircraft engineering



Low cost airline



In-flight catering



Cargo airline/division



Retail travel franchises

- SAA operates two airline brands: SAA, and Mango.
- SAA Cargo supports the passenger business to promote trade.
- SAA Technical and Air Chefs provide services to a range of international airlines.
- SA Travel Centre sells SA destination travel products.
- SAA is very clear on its mandate and strategic objectives as a State Owned Company, which include new route development, enabling tourism and creating employment in the economy.
- Our Corporate Plan is targeting strong growth.
- SAA is seeking to strengthen its tourism sectoral growth role and relationship with SA Tourism.

# SAA Already Plays a Strong Role in South African Tourism

*SAA has a major catalytic demand<sup>1</sup> effect on the tourism sector*



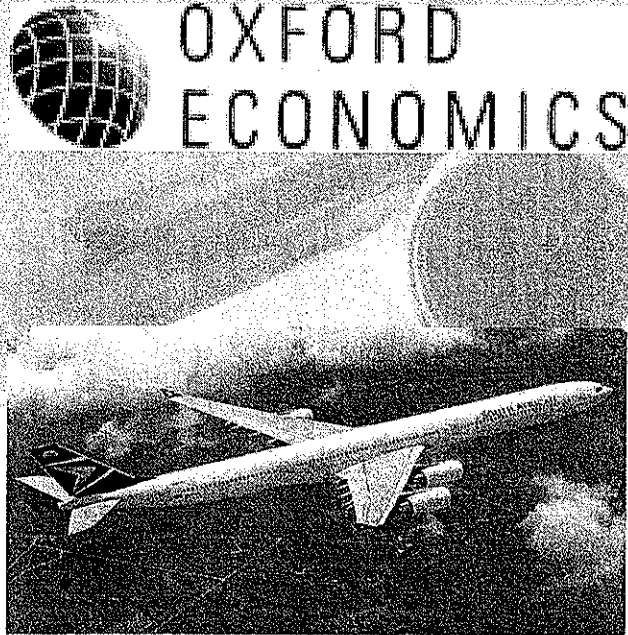
## SAA's activity has four distinct channels of effect

- **Direct impacts:** activity and scale growth in the aviation sector, e.g. airport infrastructure development, airport retail.
- **Indirect impacts:** activity supporting non-aviation tourism infrastructure development, e.g. car rental, hotels, ground transport, tours.
- **Induced impacts:** activity (consumption and investment) generated by those directly/indirectly benefiting from aviation activity.
- **Consumer welfare impacts:** general benefits to South Africans from increased tourism access.

<sup>1</sup> Catalytic demand models (e.g. International Civil Aviation Organisation, US Department of Transport and Oxford Economics) are a key part of any holistic analysis of the benefits of aviation activity. They also form a major element of SAA's support for New Growth Path, beyond its direct employment and KPI's agreed with DPE in the Shareholder's Compact.

# SAA Already Plays a Strong Role in South African Tourism

*Oxford Economics<sup>2</sup> recently valued aviation's tourism sectoral contribution*



## **Aviation's catalytic effect on tourism in SA**

- ZAR23.4 billion contribution to GDP (in addition to the ZAR50.9 billion in other sectors).
- 116,000 tourism jobs created (in addition to the 227,000 created in other sectors).

## **SAA's estimated contribution to that effect**

- SAA carries approximately 50% of inbound passengers, so makes a ZAR11.7 billion GDP contribution and supports 58,000 jobs.

<sup>2</sup> Oxford Economics were commissioned by the International Air Transport Association (IATA).



# SAA Intends to Substantially Grow its Business

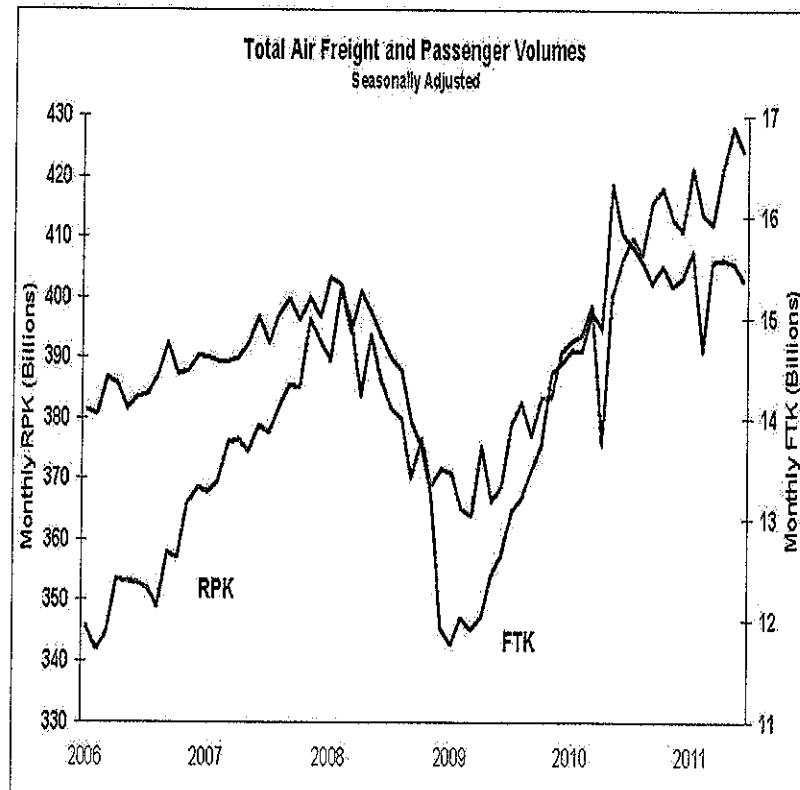
*This will materially increase SAA's tourism sectoral growth contribution*

Passengers	Forecast	Medium term estimate		
	2010/11	2011/12	2012/13	2013/14
Revenue passengers	6 564 550	7 589 286	8 171 425	8 983 732
Business	643 026	918 291	1 015 141	1 149 459
Economy	5 921 524	6 670 994	7 156 284	7 834 273

*SAA's forecast passenger growth (SAA & Mango) is 37 % to the end of March 2014 (Cargo growth forecast is 19.5% for the same period). This will increase SAA's tourism sector GDP contribution and job creation, with direct job creation targets within SAA already agreed with DPE.*

# Current Challenges Facing the Aviation Sector in SA

*Residual GFC effects, including low GDP growth forecasts*



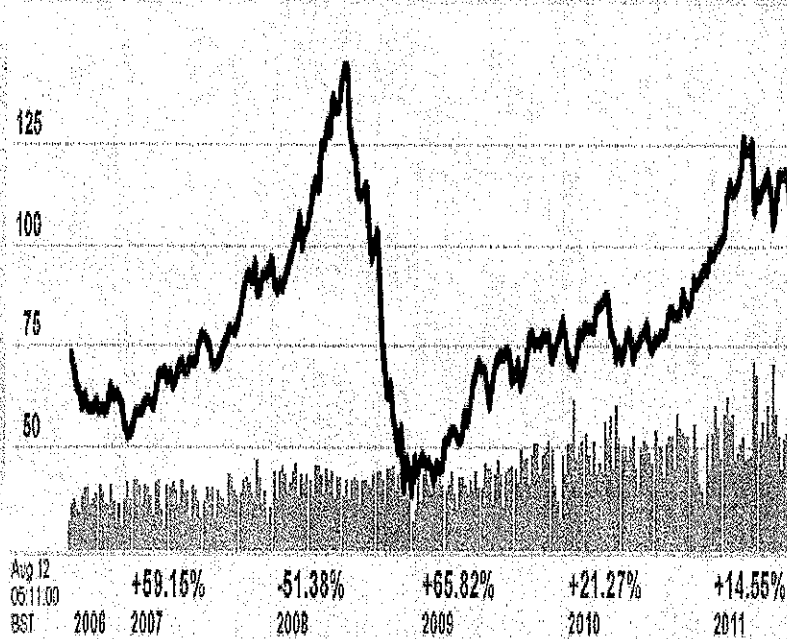
## The propensity to travel tracks GDP Growth

- Global demand growth rate has still not recovered to pre-GFC levels (leisure travel demand in particular).
- Low GDP growth in most markets and periodic external shocks (such as the Japanese earthquake and volcanic ash clouds).
- Continued economic uncertainty suggests low growth rates will remain for the short to medium term.



# Current Challenges Facing the Aviation Sector in SA

*Higher fuel costs with some volatility*



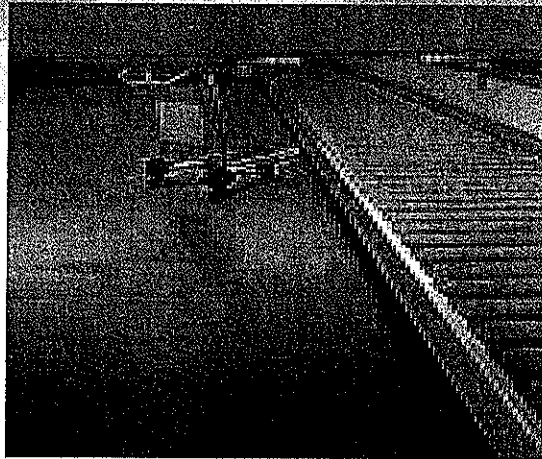
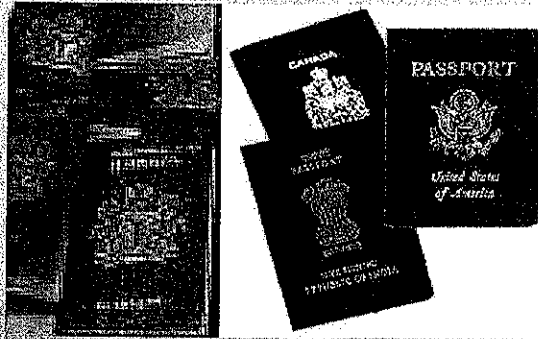
*Brent price August 2006 to August 2011. Source: Thomson Reuters*

**Fuel is approximately 1/3 of an airline's operating costs**

- The Brent price moved above USD 100 per barrel in January and peaked at USD 126 in April.
- Fuel is priced in USD, so airlines must manage commodity price and exchange rate risk.
- Fuel price increases can only be partially recovered via passenger and cargo fuel levys.

# Current Challenges Facing the Aviation Sector in SA

## *South African Transit Visas and baggage theft at South African airports*



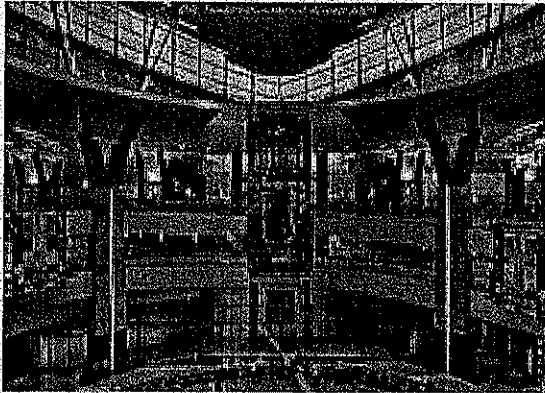
### **Transit Visa complexities and baggage theft drives passengers away from SA**

- Transit visas required for many nations, including Lesotho, Swaziland, Namibia, Zimbabwe, Botswana and Mozambique.
- Other African airports are easier to transit.
- Johannesburg particularly exposed to the relative efficiency of Nairobi and Addis Ababa.
- Baggage theft remains very high and OR Tambo International is out of control.



# Current Challenges Facing the Aviation Sector in SA

## *High airport charges*

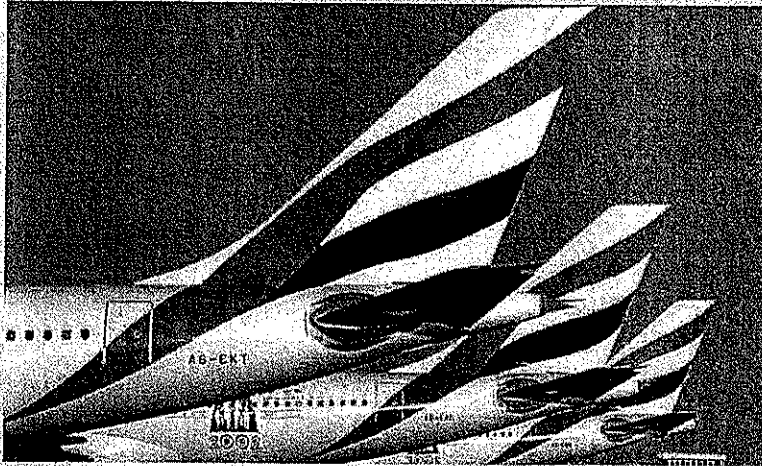


### **South Africa's airports are already high cost by global standards**

- In competitive developed market airport models, there is an element of negotiation with airlines (prior to construction) and there are alternative airports.
- Airport charges projected to increase 129% from 2010 to 2015.
- Airport charges are recovered by airlines through higher fares.

# Current Challenges Facing the Aviation Sector in SA

*Excessive capacity being allowed for foreign airlines into South Africa*

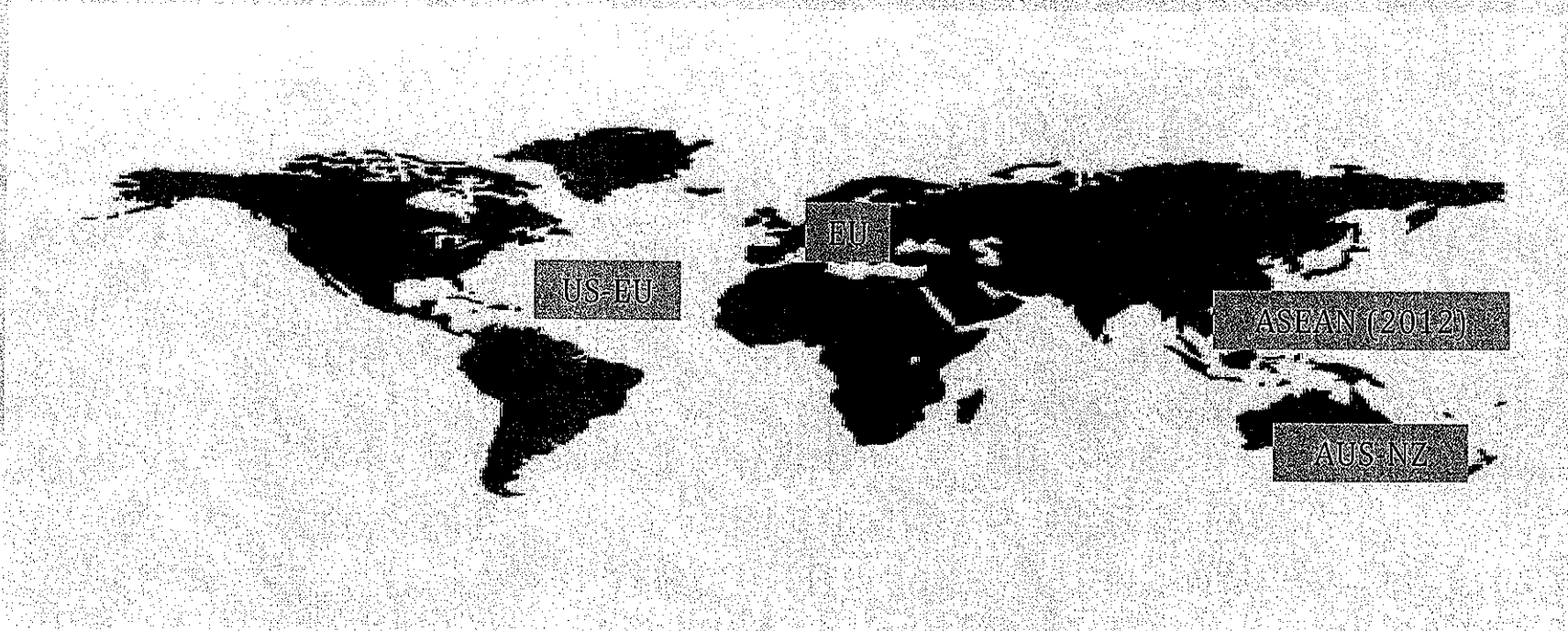


## **Demand is simply being redistributed to intermediary hubs**

- Capacity is being allocated far ahead of their home market origin and destination requirements.
- The potential to grow direct services to South Africa is being reduced.
- The end point of this loss of competitive ability by home airlines is a market like Australia (Qantas now exposed).
- Canadian strategy/policy is to control capacity allocation in proportion to real demand.

# Current Challenges Facing the Aviation Sector in SA

*African aviation markets are only slowly liberalising relative to global markets*



**More than half the world's aviation capacity is now operating in open markets**, with Africa still liberalising slowly. African states are reluctant to implement open skies with South Africa, however they enter into open skies type agreements with other African states (if their own airlines will not be affected) and non-African states, such as the UAE.

# Current Challenges Facing the Aviation Sector in SA

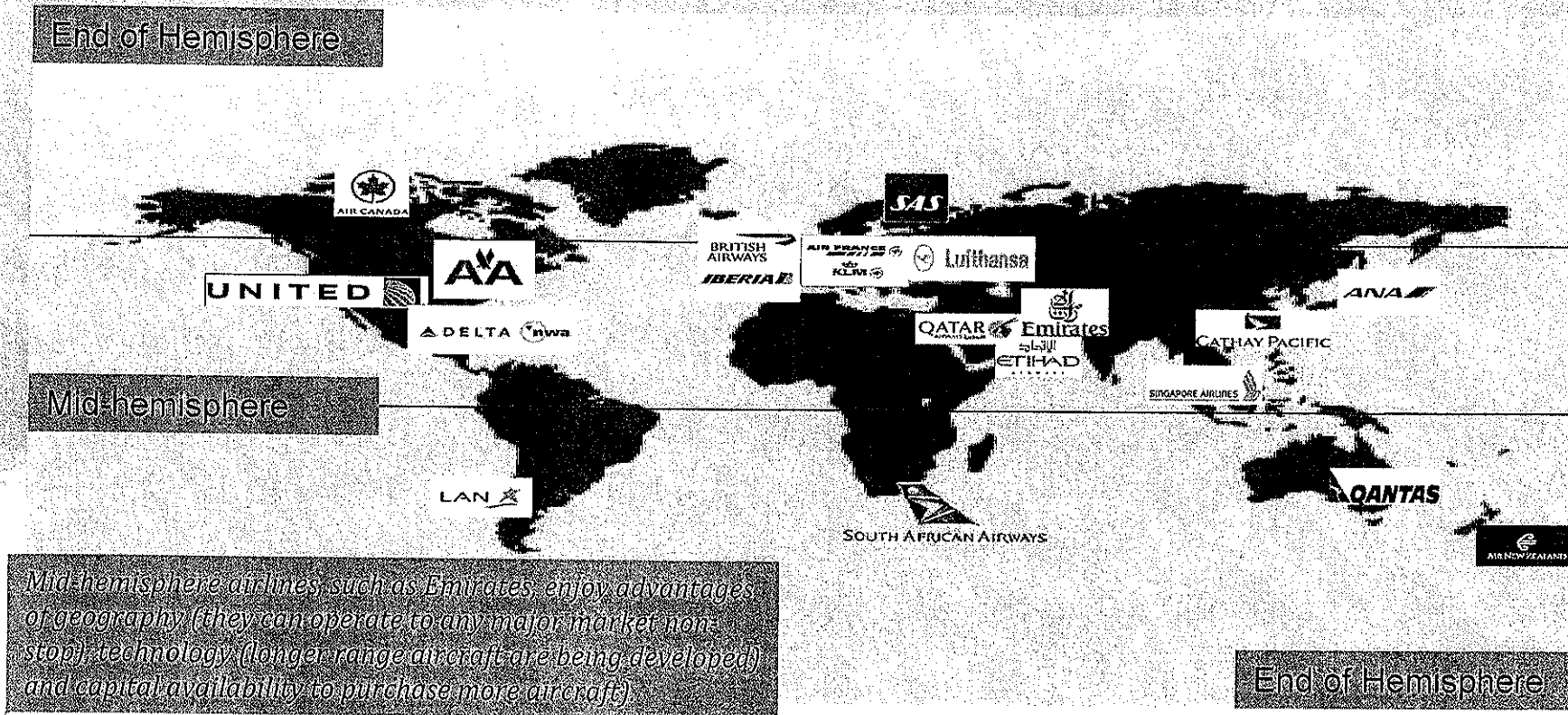
*Airline market consolidation is accelerating after the Global Financial Crisis*



**Almost all airline equity consolidation has occurred in open markets** and South African airlines face competitors of much larger scale than five years ago.

# Current Challenges Facing the Aviation Sector in SA

## Mid-hemisphere network carrier capacity increases



**SAA's response to being an end of hemisphere carrier: re-design our network; capitalise on east-west traffic flows and our African strength for new route development; and strengthen the Johannesburg hub.** End of hemisphere airlines, like SAA and Air New Zealand, are at a distinct disadvantage. Mid-hemisphere capacity growth into Africa is being primarily driven from the EU single-market or gulf nation states, such as UAE and Qatar.

# Current Challenges Facing the Aviation Sector in SA

*Mid-hemisphere capacity growth: **Emirate's** five year African growth*

**July 2006**

Passenger operations network & monthly capacity

Emirates: 13 destinations / 55,310 seats

Other activities

Emirates SkyCargo: 3 scheduled destinations





# Greater Coordination Required Between Aviation & Tourism

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*SAA seeks to forge stronger links with SA Tourism*

## **1. There is currently a lack of cohesion at a formal and practical level**

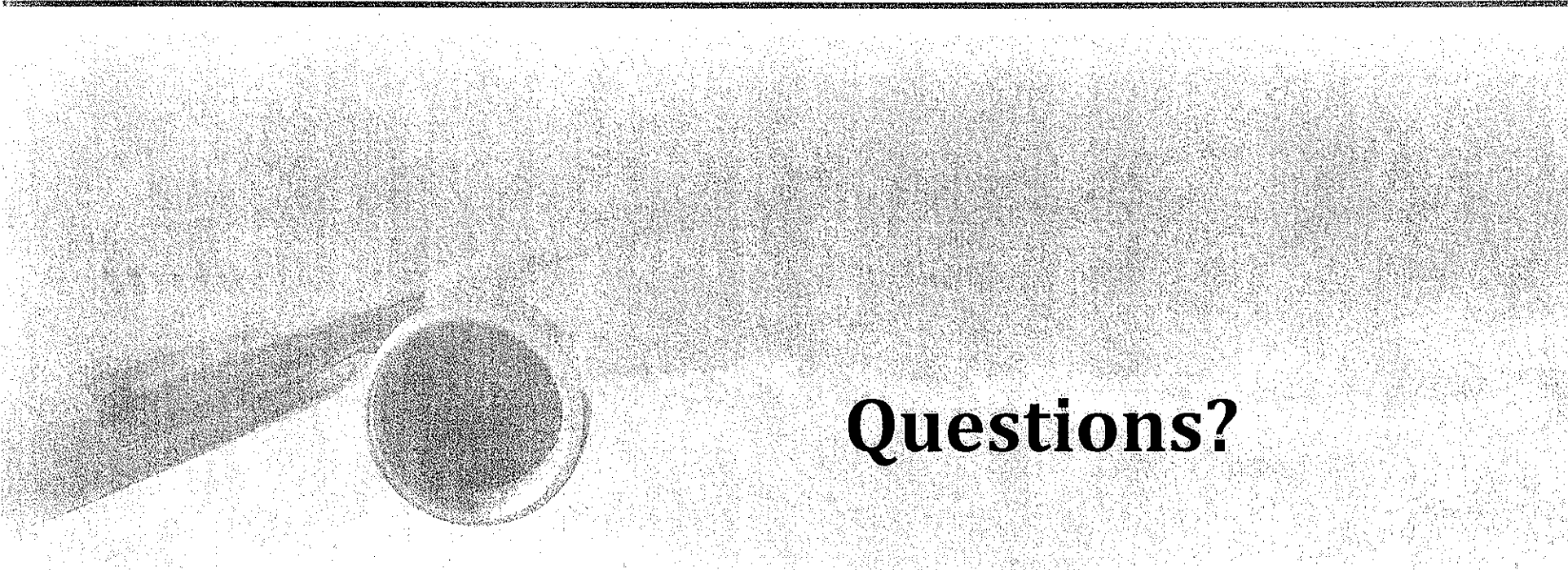
- We will both benefit from forging stronger links and (first and foremost) tourism sectoral GDP contribution and job creation will increase.

## **2. Joint Working Group between SAA and SA Tourism**

- Develop a three year strategy and an Annual Working Plan for all markets.
- Planning and implementation monitoring at a corporate and field level.
  - e.g. SAA Regional General Manager Europe working closely with SA Tourism Head of Europe.

# South African Airways - Portfolio Committee on Tourism

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**Questions?**