

**IATA UPDATE ON THE ECONOMIC &
SOCIAL BENEFITS OF THE SINGLE AFRICAN
AIR TRANSPORT MARKET**





Africa's Connectivity Journey.

- Aviation is an important economic enabler, supporting over \$72 billion in GDP and 6.8 million jobs in Africa. Air transport connectivity enables tourism and facilitates trade. It also connects friends and families and promotes the exchange of knowledge and ideas;
- The economic benefits of policy reform on the issue of intra Africa connectivity could be significant. A 2014 study for IATA found that addressing market access barriers between just 12 countries could lead to 4.9 million additional passenger journeys, unlocking \$1.3bn in additional economic activity and supporting the creation of 155,000 new jobs.
- The demand potential for intra-African air travel remains large. Realizing this potential is dependent on Governments putting the right policy framework and operating environment in place.
- Three **strategic conditions** must be met:
 - Recognize aviation as a strategic asset and place aviation at the heart of economic strategy;
 - Remove or reduce financial, operating and regulatory barriers that hinder the development of air connectivity; and
 - Implement a smarter regulation approach to aviation in line with global best practice.

1. Benefits of greater intra-Africa connectivity

Analysis of the Traffic Impacts of Intra-African Liberalisation

To understand the potential benefits of greater intra-African air connectivity, in 2014 IATA commissioned a study to examine the impact of a single policy measure (liberalising air markets) between 12 countries within four sub-regions of Africa:

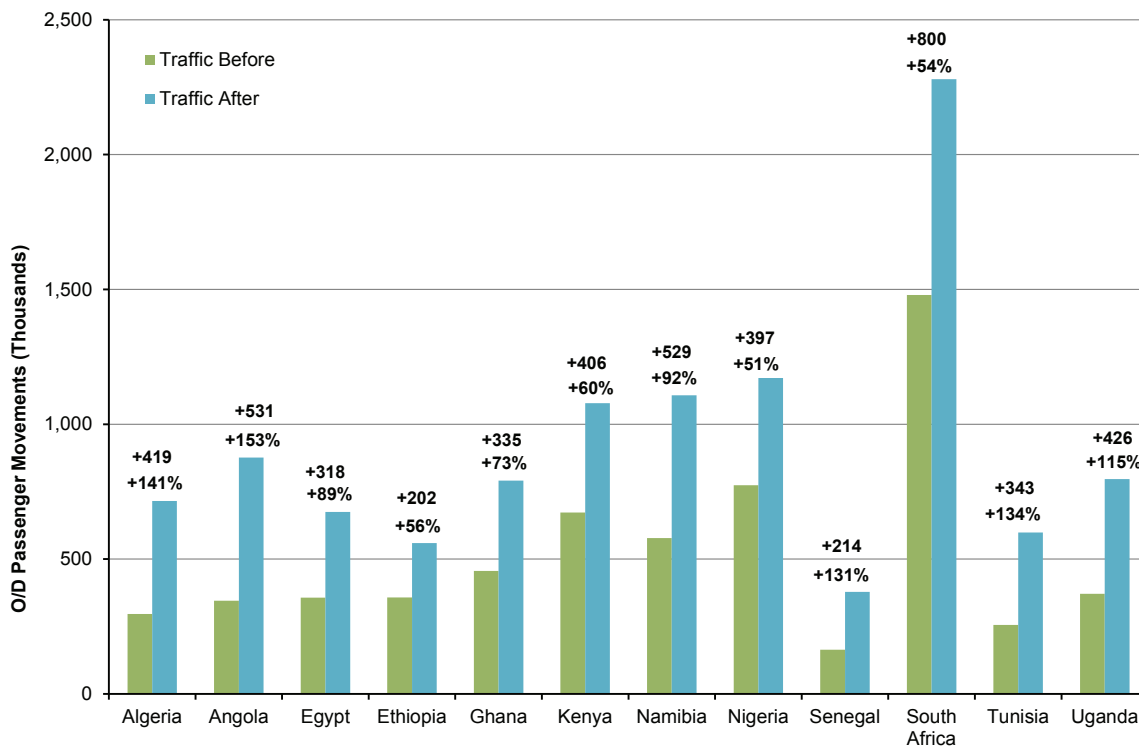
- **North:** Algeria, Egypt, Tunisia;
- **East:** Ethiopia, Kenya, Uganda;
- **South:** Angola, Namibia, South Africa;
- **West:** Ghana, Nigeria, Senegal

The impacts of liberalising the air market between these 12 countries were estimated using a gravity model which forecasts traffic between any two countries (or groups of countries) based on the two countries’ economic characteristics, trade levels, geographic relationship, and the characteristics of the air service bilateral between the two countries.

The increased passenger volumes resulting from liberalisation are summarised in **Figure 1**. The traffic impacts on the 12 countries ranged from increases of 51% (Nigeria) to increases of 141% (Algeria). In total, traffic flows between the 12 countries were projected to increase by 81%.

This would represent several million passengers who would be able to travel by air, but who are currently unable to do so for reasons of cost, flight availability, or convenience.

Figure 1 Passenger Traffic Impact of Liberalisation



Source: InterVistas

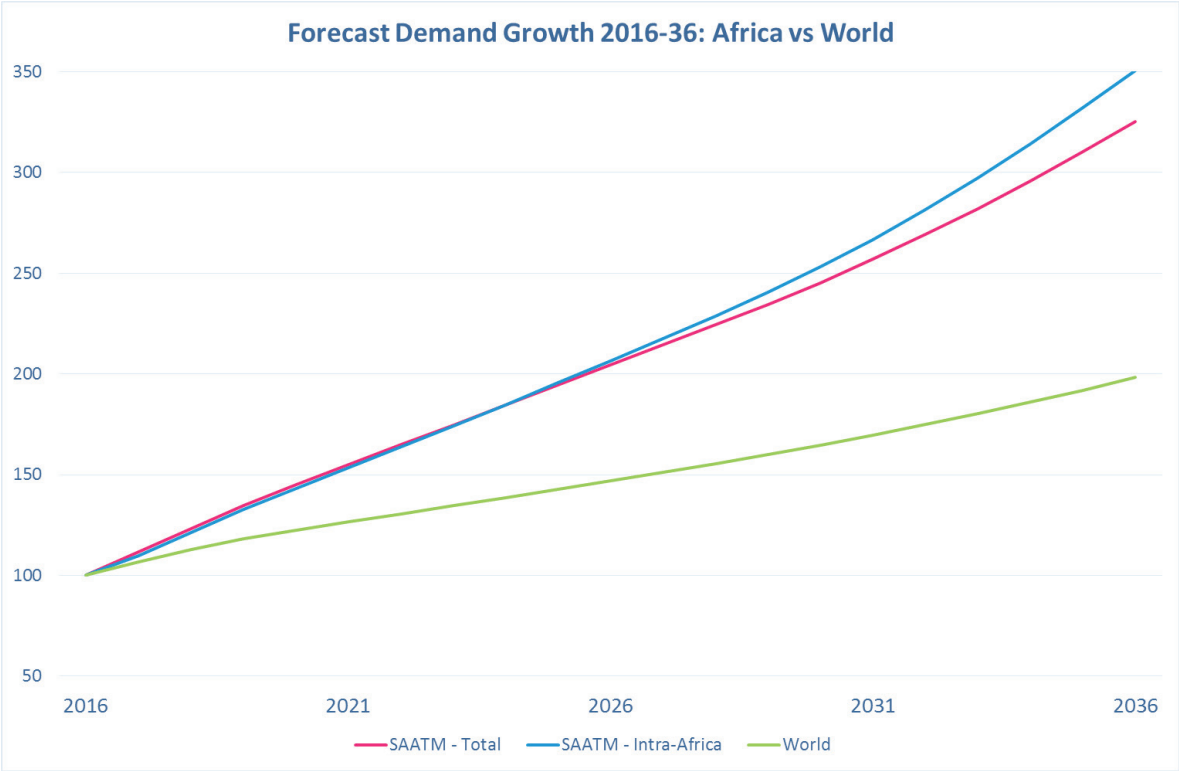
2. Delivering the potential of the Single Africa Air Transport Market “SAATM”

Forecast demand growth highlights the huge potential for the SAATM

Demand for air travel to, from and within Africa is forecast to more than treble over the next 20 years, with the total market in the 22 countries that have signed the Solemn Commitment and which are due to be the initial members of the SAATM growing from 75 million passengers in 2016 to more than 240 million passengers per annum by 2035. In turn, aviation’s role as an economic driver in Africa will naturally grow over time.

Within this overall picture, intra-African demand is forecast to grow even faster. The biggest markets are expected to maintain their relative importance over the next 20 years, with just a few countries swapping positions within the Top 10. South Africa, Nigeria and Kenya are expected to be the top three markets for travel within the continent, while Egypt will remain the largest market overall with Ethiopia also maintaining its position as an important player for travel between Africa and the rest of the world.

Figure 2: Forecast Demand Growth 2016-36 (selected markets, Index: 2016 = 100)

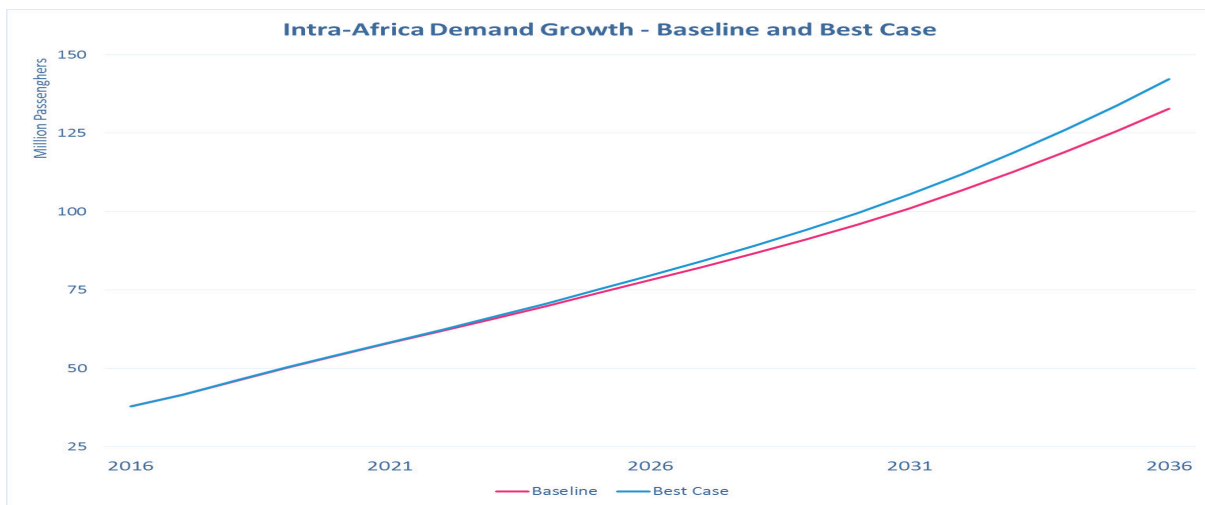


Source: IATA / Tourism Economics Long-Term Passenger Demand Forecast

Figure 3 shows that the true potential for African aviation is even greater. While the figures presented in Figure 2 assume a favourable policy mix, if Governments prioritize aviation and put it where it belongs, at the heart of economic strategy, an additional 10m additional passengers could travel intra-Africa by 2035. This is equivalent to the entire intra-Africa traffic departing from Ethiopia, Kenya and Nigeria combined today.

These figures highlight the true potential of the SAATM if governments take action to fully implement the blueprint set out below.

Figure 3: Baseline vs Best-Case scenarios



Source: IATA / *Tourism Economics Long-Term Passenger Demand Forecast*

Developing intra-Africa connectivity is clearly critical to enhancing the economic and social cohesion of the continent. At the same time, it is an important element of developing local aviation markets. **Figure 4** shows the share of total passenger traffic in selected African markets that is made up of intra-Africa traffic. In the great majority of countries, intra-African traffic accounts for at least half of the total market. The only exceptions to this trend are Cape Verde and Egypt which, partly because of geography and partly because of the significance of tourism originating in Europe as a driver of aviation demand, have much lower shares.

An interesting observation is that some of the countries with the highest dependence on the intra-African market, such as Swaziland and Zimbabwe, have the lowest forecast rate of growth in intra-African markets. Accordingly, the ability to develop the aviation markets will be restricted in these countries unless they are able to successfully penetrate highly-competitive international markets. This observation points again to the vital importance of governments taking coordinated policy action to stimulate the development of intra-Africa aviation.

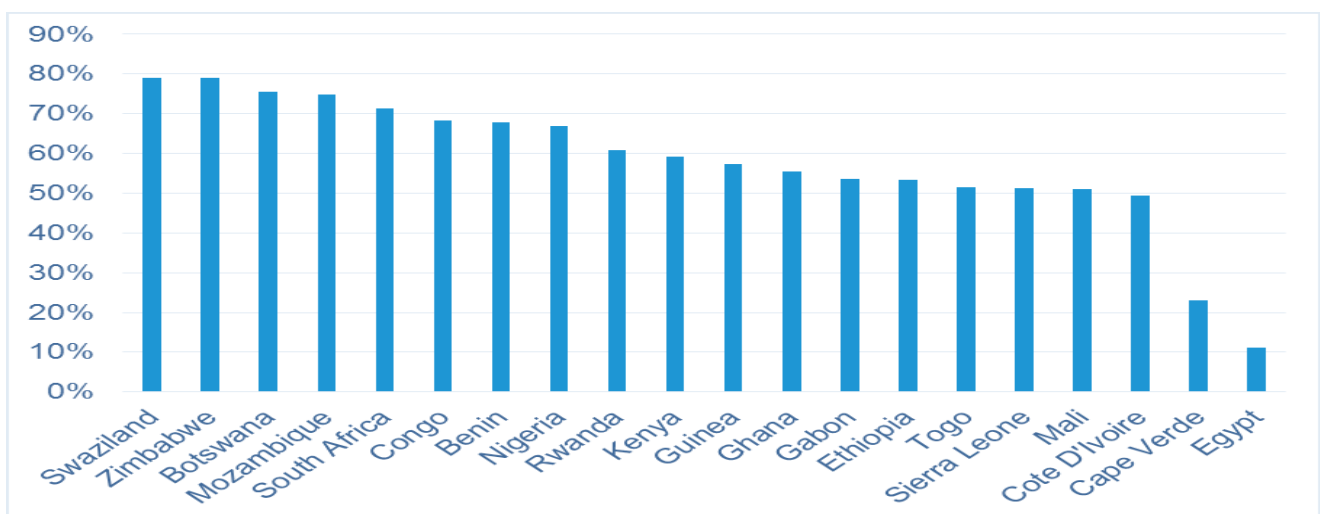


Figure 4 Intra-Africa passengers as a share of total market (selected countries)

3. The journey so far...

Since the 2014 InterVistas study was launched, what has happened on the intra-Africa (i.e. non-domestic) routes between the 12 countries selected? Comparing 2016 with 2014, via key parameters – **frequencies**, **capacity (seats)**, **passenger number** and **connections**, we can see how far we have gone and the journey ahead of us:

a) **Frequencies (flights):**

- **7 countries** saw an increase in the number of flights departing to the other 11 countries in the study and 4 saw a decline (Angola, Egypt, Nigeria and Senegal).
- The overall impact was a net increase in the number of frequencies operated between the 12 countries of **9%** between 2014 and 2016.

b) **Capacity (seats):**

- The increase of **9%** in frequencies translated into a **5%** increase in seats.

c) **Passenger numbers:**

- Total passenger numbers for traffic between the 12 countries (both direct and indirect) increased by **8%** between 2014 and 2016, equivalent to an annualized growth rate of **3.8%**;

d) **Connections:**

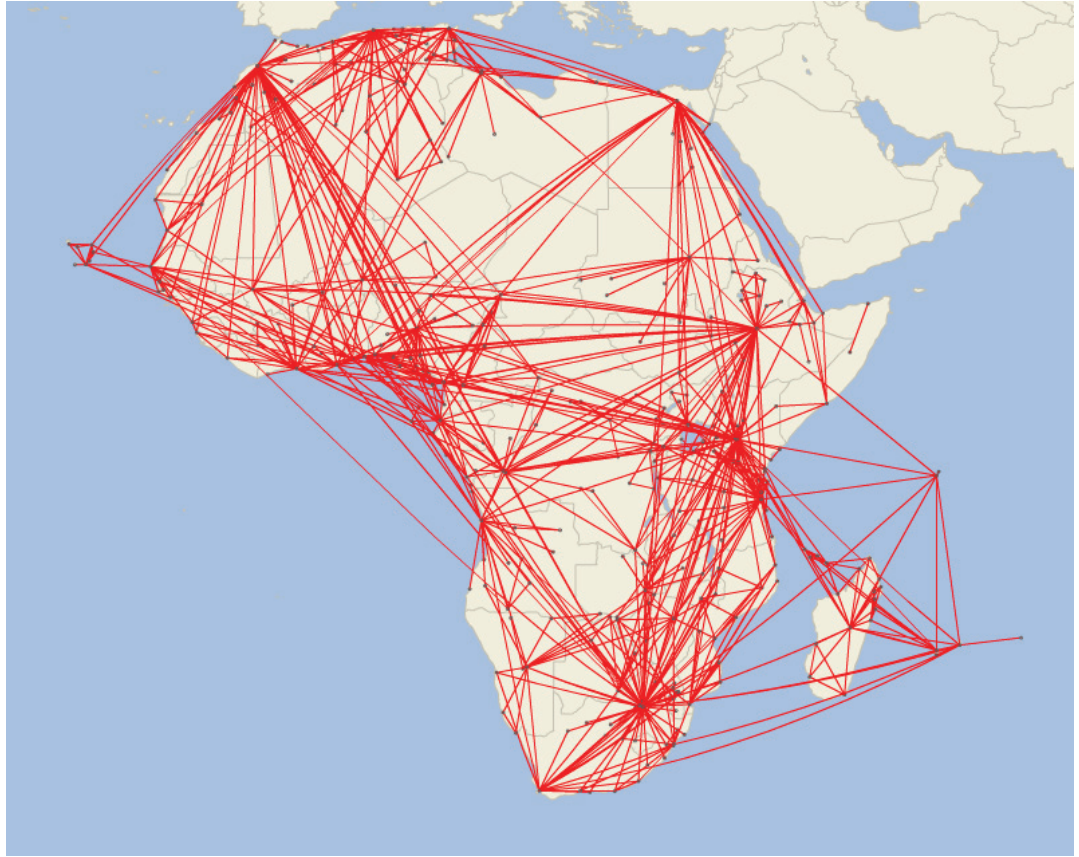
- Of the 12 countries, 3 saw a net increase in the number of connections (routes) with the other 11 countries in the study – these 3 are Ethiopia (3), Nigeria (1) and South Africa (3);
- 3 countries saw a net decrease – Ghana, Namibia and Senegal (1 each per country);
- The others saw no overall change – while there may have been route openings these will have been balanced by route closures;
- The net impact was **4 additional** intra-Africa routes between the 12 countries.

e) **Combined impact:**

- Only Ethiopia and South Africa saw an increase in both connections and frequencies amongst the 12 countries.

4. Still lots of white spaces – lots more work to do!

Source: SRS
Analyser,
IATA Economics
November, 2015



Source: SRS
Analyser,
Data extracted
for July 2017.

5. Recent success stories point the way forward

In recent years a handful of countries have recognized the potential that aviation can generate and have adopted policy reforms to boost connectivity:

1. The government of **Seychelles** has been working to refresh and modernize existing bilateral air service agreements and sign new agreements with partner countries in order to stimulate traffic growth and improve both international and regional connectivity.
 - These policy actions have enabled the Seychelles passenger market to grow by 52% between 2013 and 2016, the fifth-highest growth rate in Africa over the period.
 - This traffic growth was matched by an increase in connectivity with the number of direct routes served going up from 12 to 18 and the number of weekly departures more than doubling from an average of 156 in 2013 (22 per day) to than 382 in 2016 (54 per day) meaning that passengers not only benefit from more choice of routes but also more frequencies, with the associated convenience benefits
2. **Cote D'Ivoire** has adopted a number of measures to boost air connectivity and support the country's rapid economic growth. Among the policies is a focus on improving the country's infrastructure in order to be able to cope with and support enhanced connectivity.
 - As with the Seychelles, this policy action has been reflected in increased traffic growth with demand growing by 40% over the past 4 years which is the 9th highest growth rate in the region.
 - There have also been marked improvements in connectivity, with the number of routes served increasing from 20 to 34, including the establishment of no fewer than 7 domestic routes (albeit often at low frequencies) which is impressive as there were was no domestic air connectivity in Cote D'Ivoire in 2013.
3. Finally, **Rwanda** has adopted a comprehensive aviation strategy that puts the power of air connectivity at the heart of the Government's overall *Vision 2020* which aims to transform the country from a low-income agrarian economy to a medium income export-oriented and knowledge-based economy. The policy reforms are wide-ranging and seek to enhance the performance of both public and private sectors and improve the quality of both physical capital (infrastructure) and human capital (skills and technical capability).
 - Given the scope and ambition of these reforms, the programme will take time to be fully implemented. Accordingly, initial results are somewhat more modest than for Seychelles and Cote D'Ivoire. Nonetheless, traffic grew by an impressive 12% between 2013 and 2016.

In terms of connectivity, there were only 3 more routes in 2016 than in 2013 (18 and 15 respectively) and a similar number of weekly departures. However, the number of seats increased by more than 20%. This is relevant as it suggests that airlines are deploying larger aircraft (average seats per flight increased from 78 to 95). Larger aircraft can be more economically viable as cost per seat tends to be lower. This points to the potential to offer lower fares to passengers, stimulating additional demand and unleashing the virtuous cycle of connectivity.

6. A blueprint for success...

i. The way forward for States

To take full advantage of the benefits that aviation brings, and in particular to maximise the potential of the Single African Air Transport Market, African States should ensure that they create a regulatory and operating environment to allow airlines to deliver maximum social and economic benefits.

They can do this by:

1. Recognizing that aviation is a sector of strategic importance that supports a broad set of economic and social development objectives and should be placed at the heart of Government policy;
2. Removing or reducing financial, operational and regulatory barriers that hinder the development of air connectivity, including:
 - Ensuring a cost competitive operating environment, by applying taxes and charges in line with Air Service Agreements (ASAs), ICAO, OECD and UN guidance;
 - Ensuring that airport and air traffic management infrastructure meets global standards and supports growth in connectivity;
 - Facilitating visa-free travel and addressing market access issues between African states.
3. Implementing a smarter regulation approach for aviation including:
 - Regulating only where there is a clearly identified need to do so;
 - When assessing that regulation is required, ensuring that it is proportional and targeted;
 - Consulting with industry and other stakeholders to ensure that proposals are workable in practice and don't have unintended consequences;
 - Implementing policies consistent with international best practices.
4. Specific examples of smarter regulation initiatives that would support the success of the SAATM would be:
 - Ensuring that there is a coherent national or regional policy framework in place that supports sustainable development of aviation;
 - Becoming parties to key international treaties such as MC99 and MP14;
 - Using ICAO high-level guidance on consumer protection to ensure the right balance between the need to protect consumers and airline sustainability;
 - Developing masterplans for infrastructure development, with consultation between the Government and airlines, airports and ANSPs.

ii. The way forward for the Industry

1. The 23 Champion SAATM States should begin immediate implementation and countries with the highest potential to drive intra-Africa growth should be specially targeted.
2. Airlines and other Industry Stakeholders should work with African Governments in the recognition of aviation's strategic importance and support for the broad economic and social development objectives across Africa.
3. Airlines and other Industry Stakeholders should work with African Governments to remove or reduce all financial, operational, policy and regulatory barriers hindering the growth of air connectivity across Africa e.g. visa restrictions on African citizens.
4. Airlines and other Industry Stakeholders should work with African Governments to implement good regulatory practices (Smarter Regulation) by ensuring that key international treaties (e.g. MC99 and MP14) are ratified and coherent national/regional policies to support sustainable development of aviation are adopted across Africa.
5. Airlines and other Industry Stakeholders should work with African Governments to develop masterplans for infrastructure development, balancing consumer experience and protection with airline sustainability.
6. African Airline Cooperation is key including Joint Ventures, Codeshare Agreements, Interline Agreements, Alliances and other forms of Partnerships.

