Air Transport:
An Engine to Prosperity

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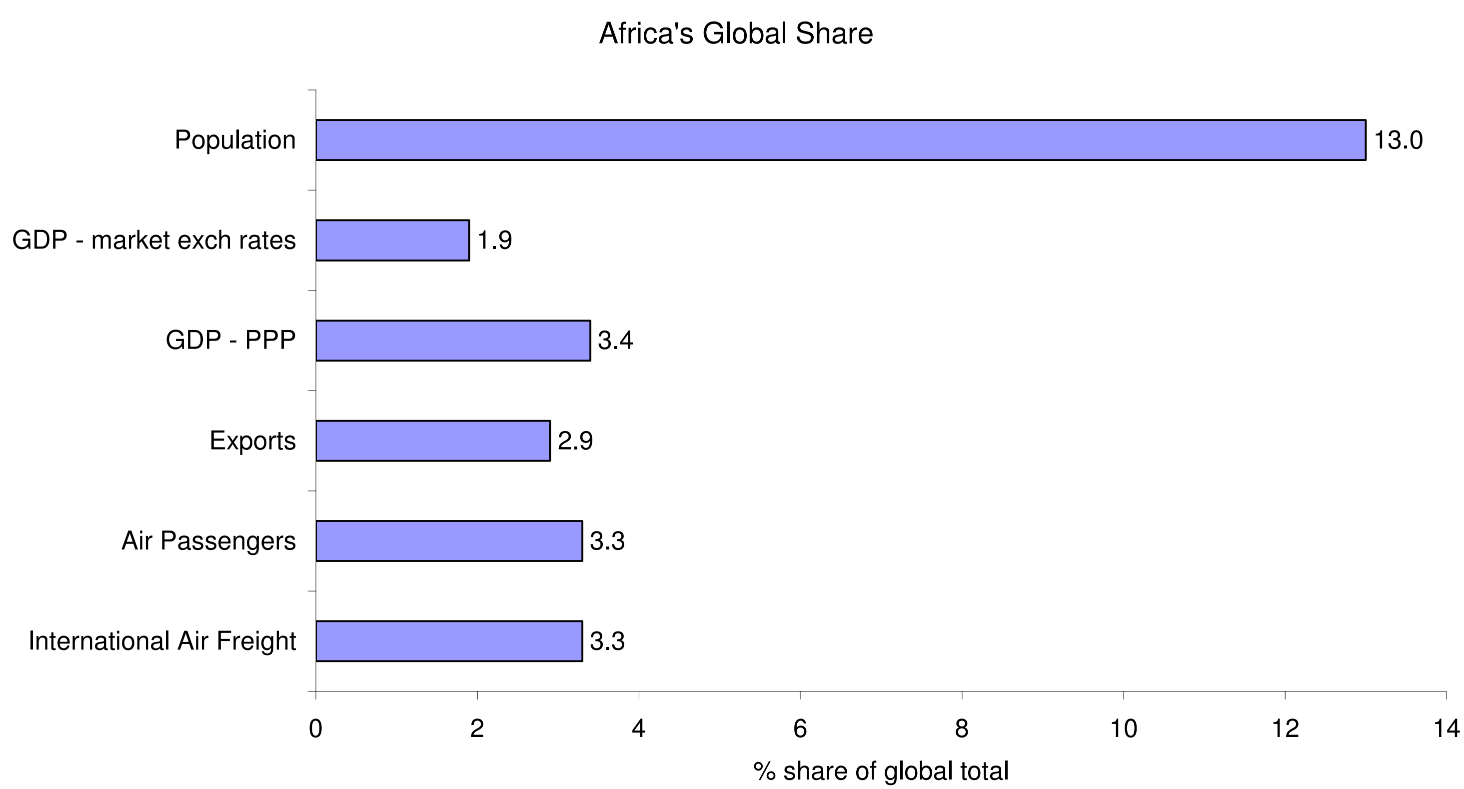
To represent, lead and serve the airline industry

Africa in a Global Economic Context

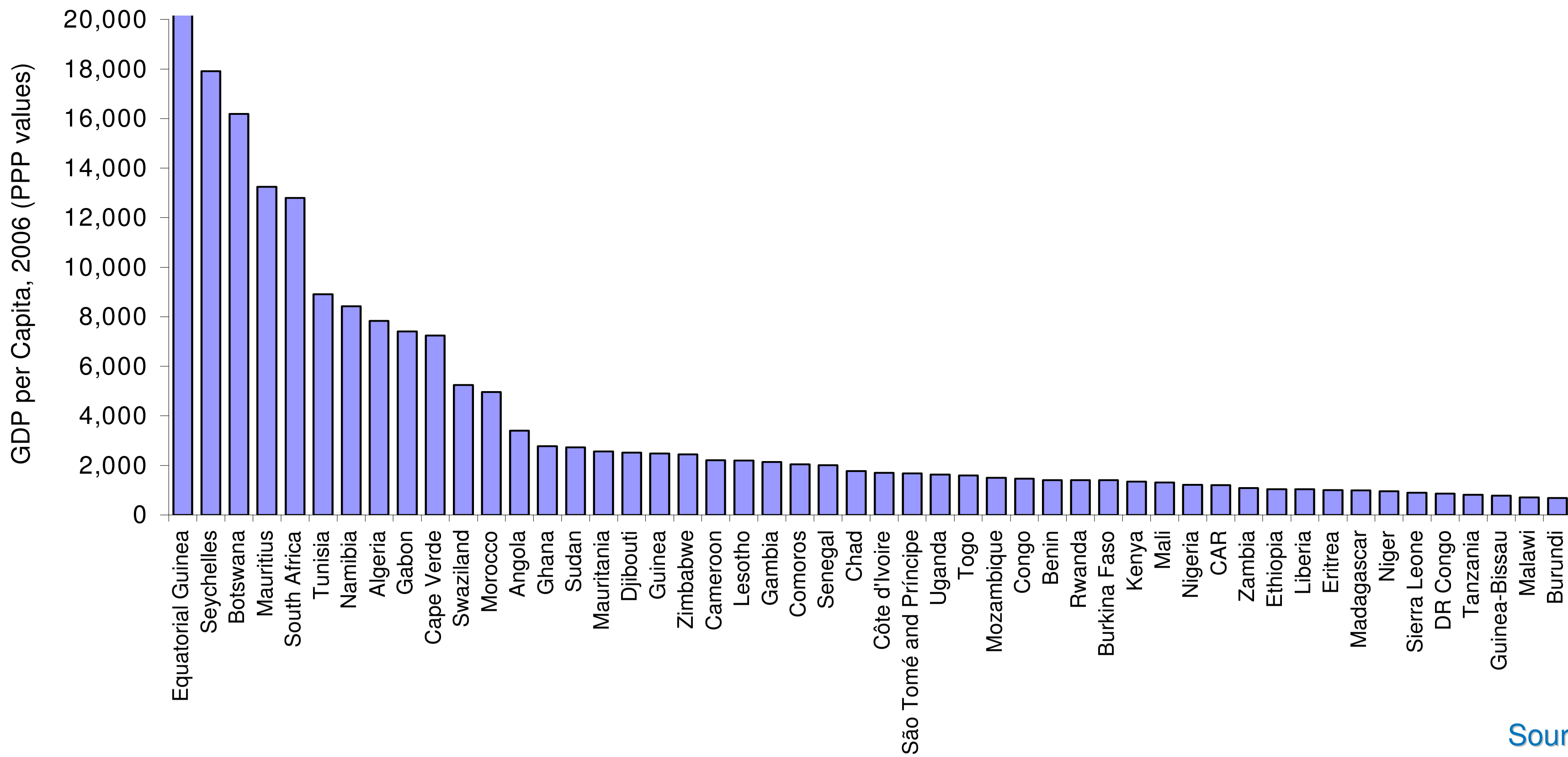
Relatively low shares of GDP, trade and air travel



Source:
IMF, IATA

African Economies

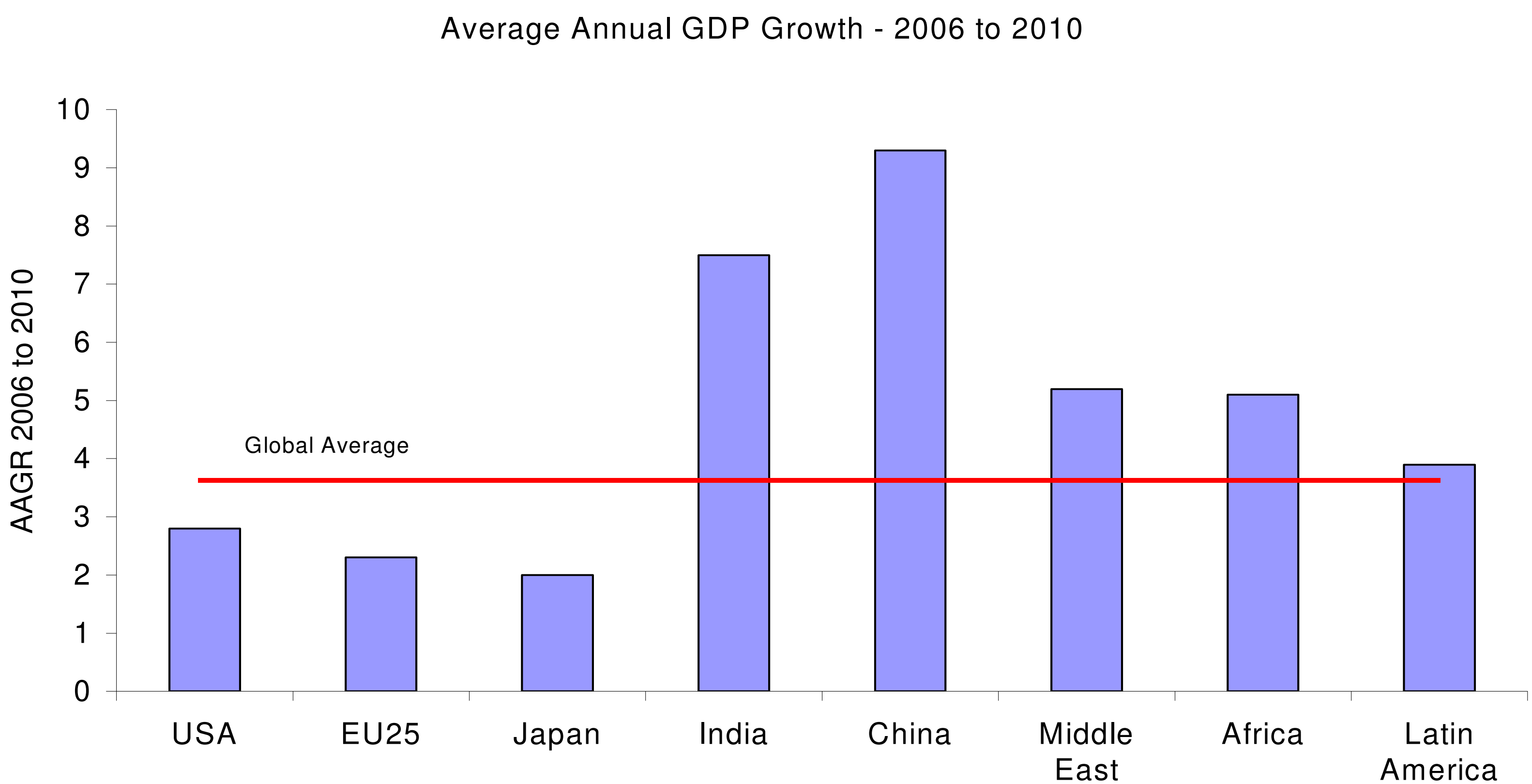
A long tail of countries with low per capita incomes



Source: IMF

African Economic Prospects have improved

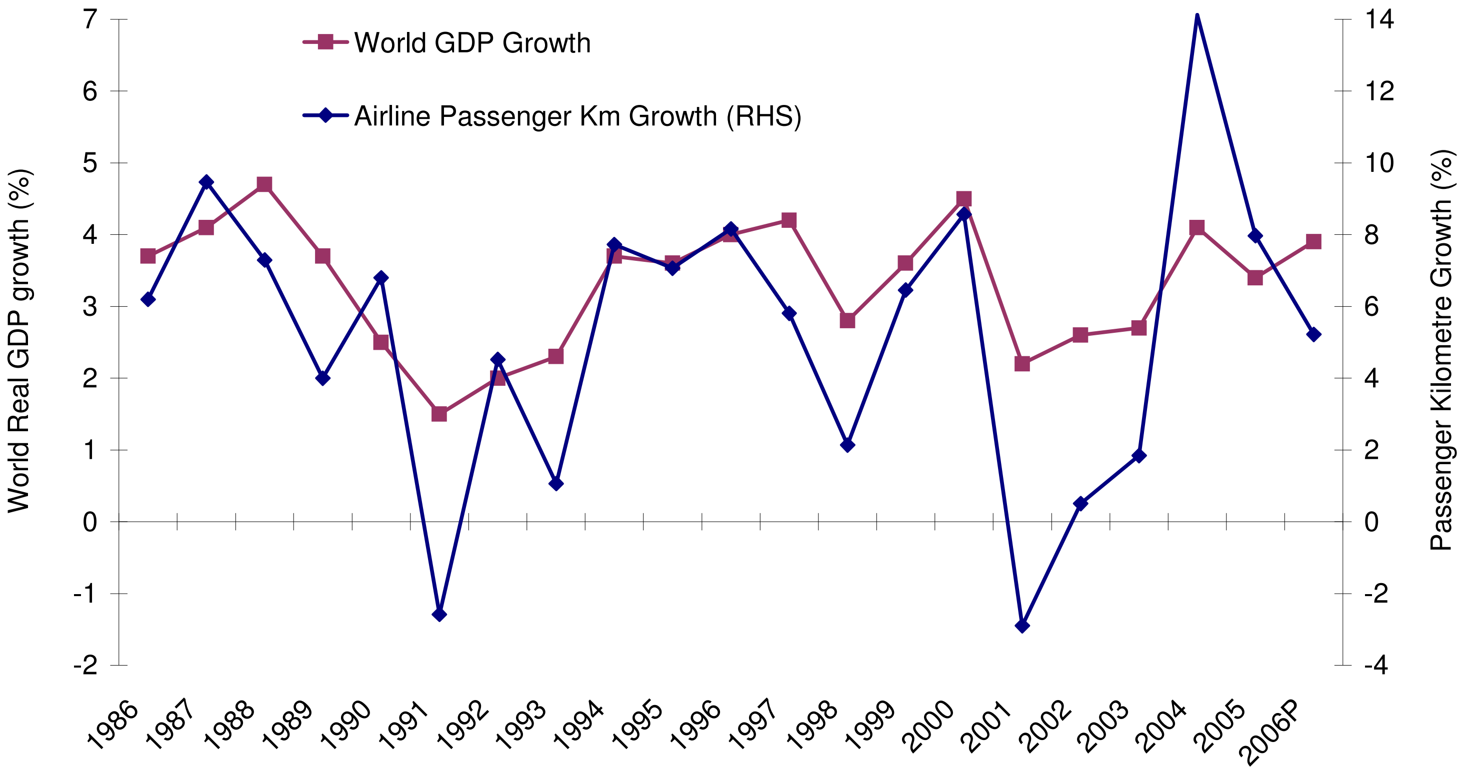
Africa is set to enjoy above-average economic growth to 2010



Source: EIU

Which should help to boost air travel demand

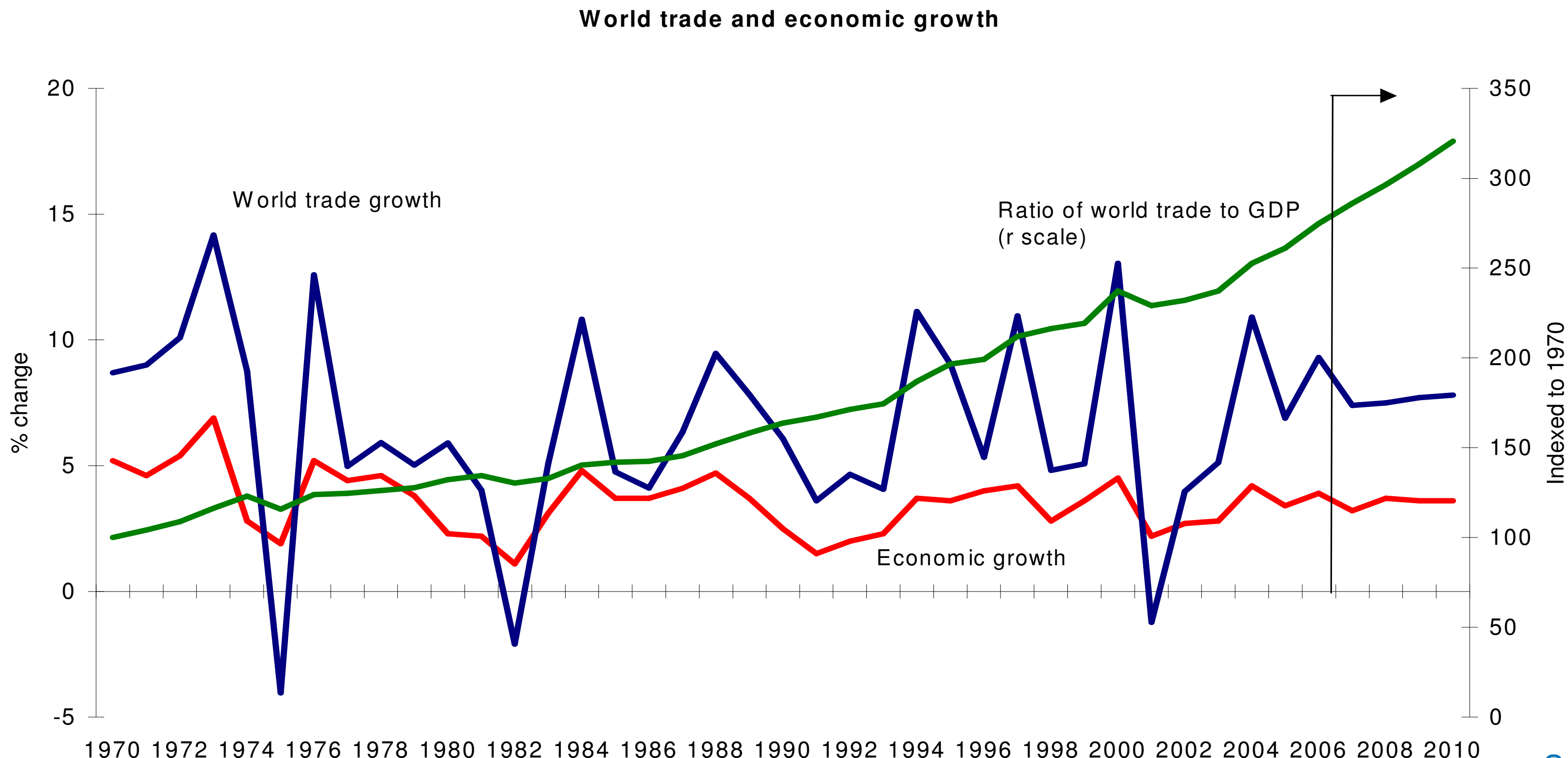
Historically air demand has grown at 1.5 to 2 times GDP growth



Source: IMF, ICAO

While globalisation will boost cargo demand

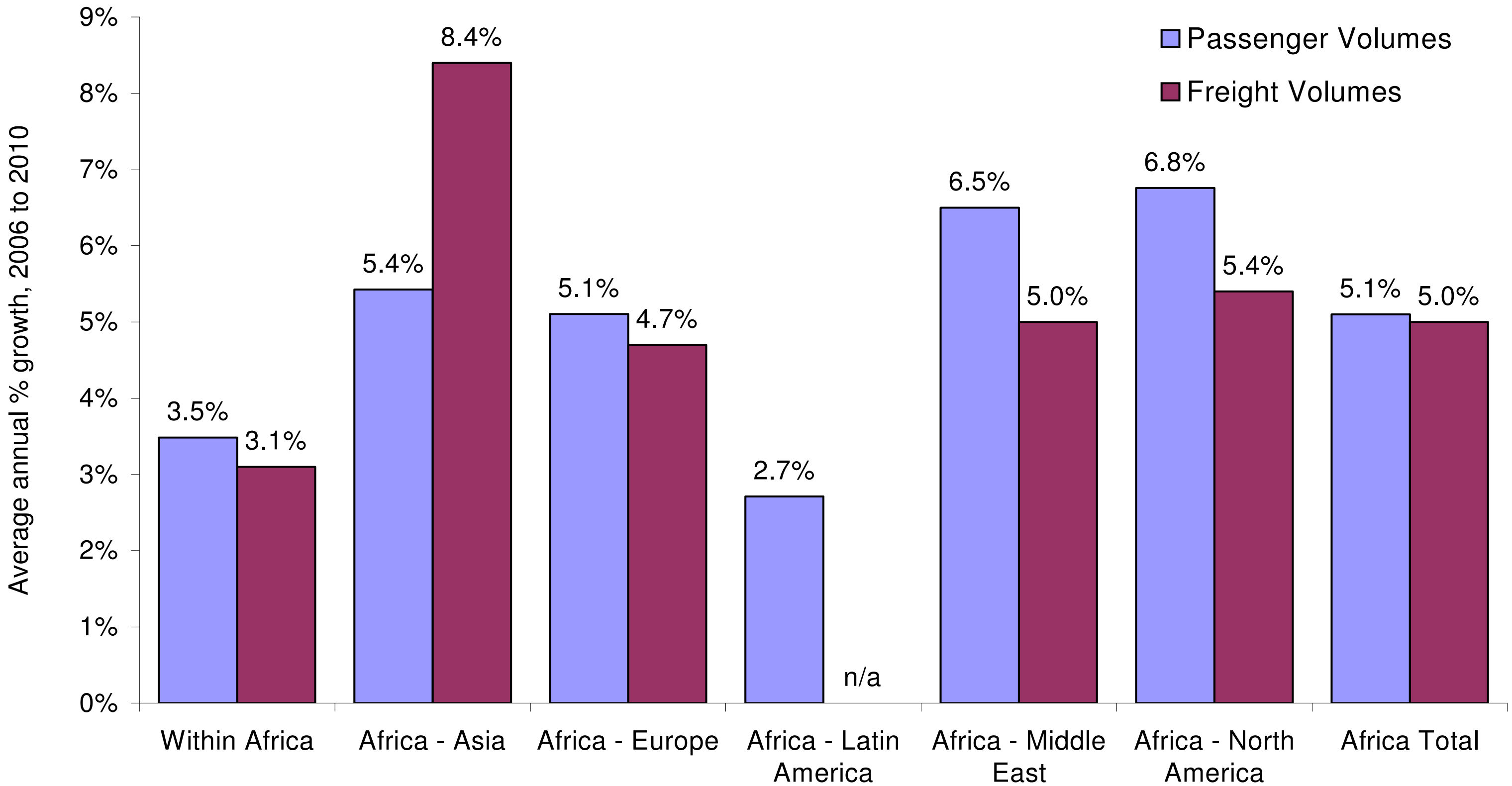
Increased economic links are leading to strong trade growth



Source: EIU

Steady growth is forecast to 2010

Freight traffic to Asia is set to see the highest growth



Source: IATA

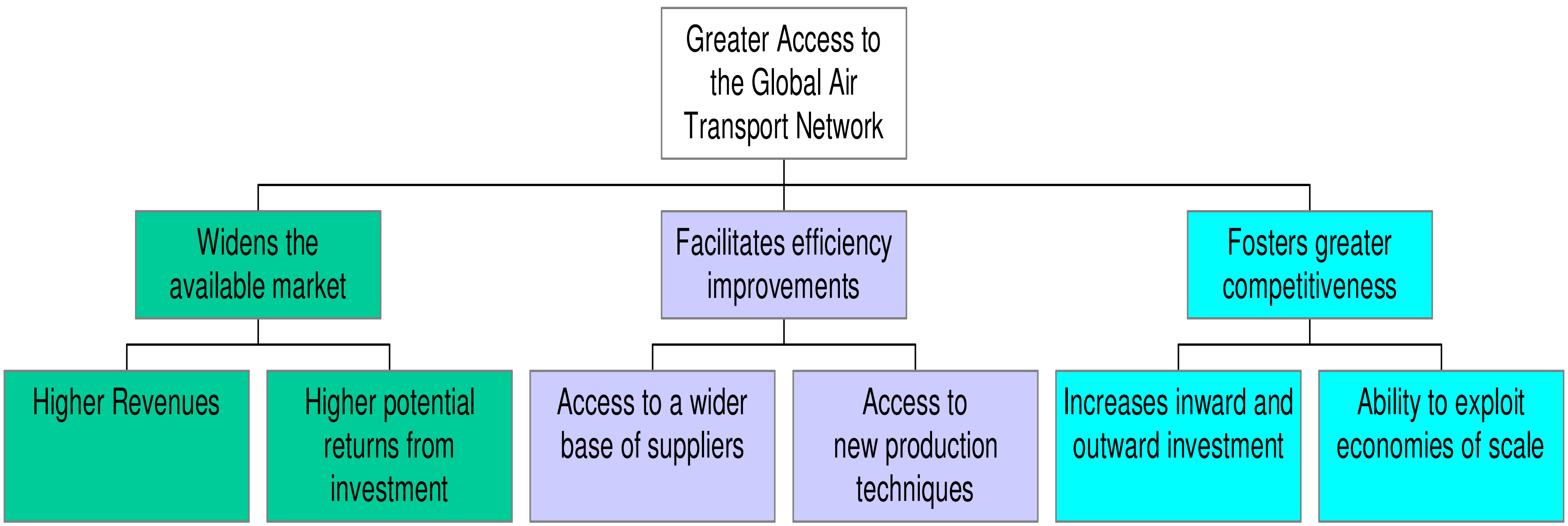
The economy / air travel virtuous cycle

Economic growth boosts air travel … but also benefits from it

- Air transport is a key network asset for economic development, like banking or telecommunications.
- Network connections provide benefits over and above the sum of the benefits from point-to-point routes.
- Value is created not just by a new air service and the importance of the destination but also by connections provided within the network.
- A well-designed air transport network **widens** markets, **improves** the efficiency of production and **encourages** greater investment.

Aviation as an engine for economic growth

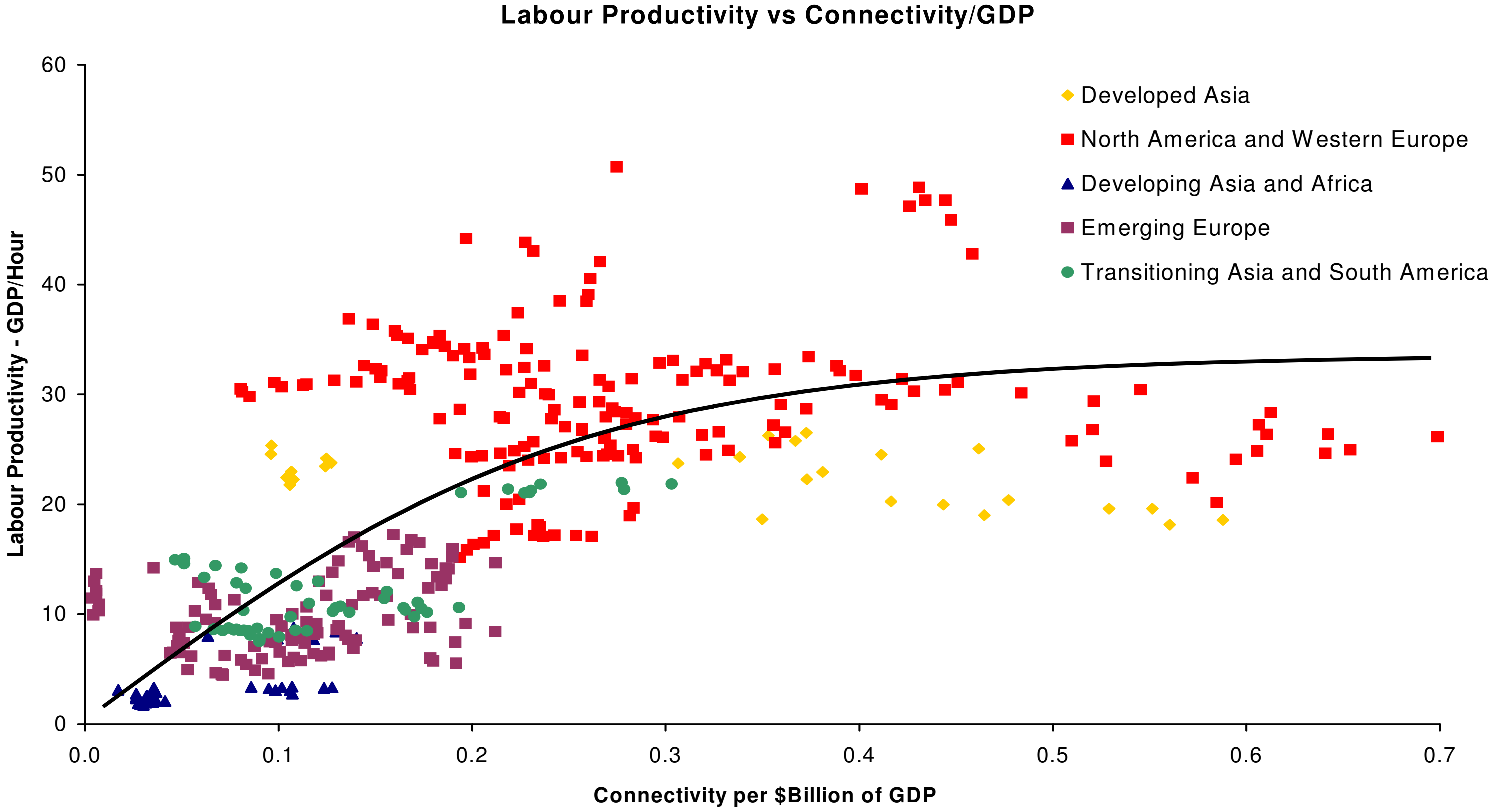
Access to the global network creates significant wider economic benefits



Source: IATA

Link between productivity and connectivity

Improving connectivity has a greater marginal impact for developing countries



Source: IATA

Creating large economic returns on investment

Economic returns alone can recoup investment costs within six years

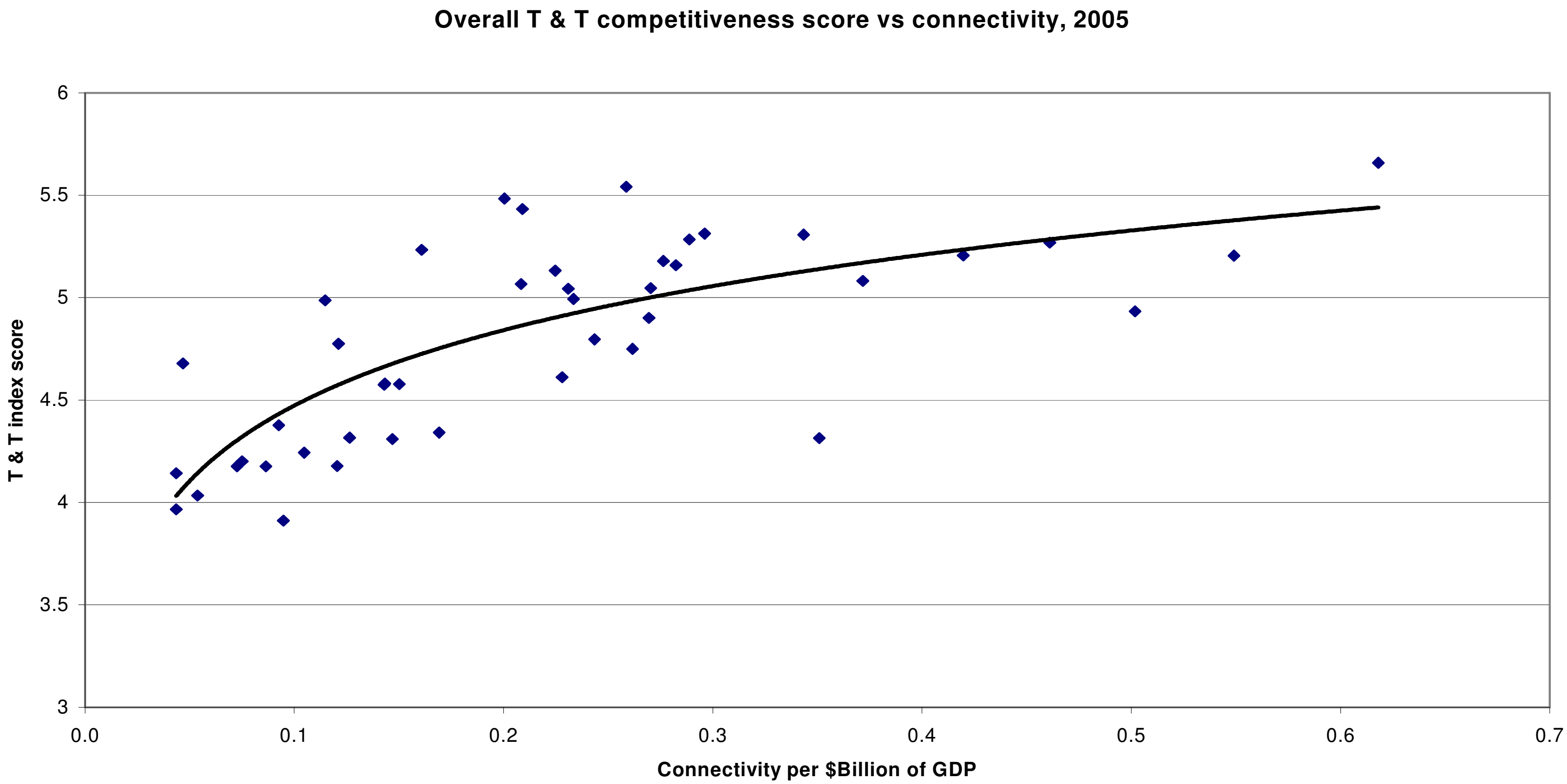
Economic Rates of Return from Aviation Investment

	Kenya	Cambodia	Jordan	El Salvador	Jamaica
Investment (US$ million)	409	786	360	802	191
Increase in national connectivity / GDP	59%	46%	55%	35%	28%
Impact on GDP (%)	+ 0.42%	+ 0.32%	+ 0.39%	+ 0.25%	+ 0.20%
Annual Economic Rate of Return (%)	59%	19%	28%	16%	16%

Source: IATA

Connectivity can also boost competitiveness

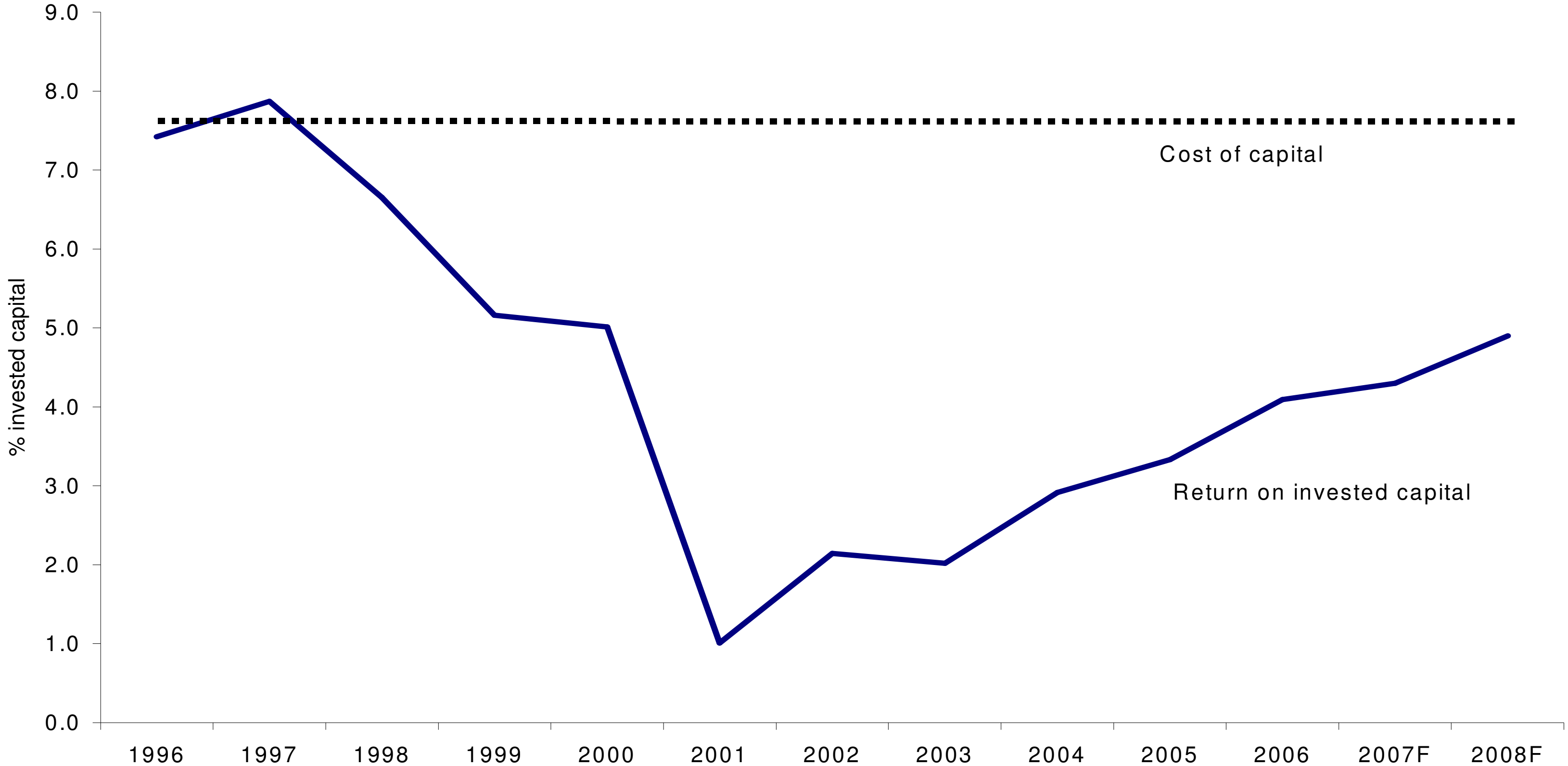
Link between access to network and travel and tourism competitiveness



Source: WEF

Investment needs to be attracted to the industry

Though this will require an improvement in the return on invested capital



Source: ICAO, IATA

How to improve returns on capital?

- High Capacity Utilisation – match new supply to demand
- Further Cost Efficiency Improvements
- Reduce inefficiency / monopoly power among suppliers
- Liberalise airline market operations … and exit
- Liberalise airline ownership

Liberalisation is not an easy process …

… and is likely to involve higher competition, at least in the short run

	Scheduled departures from Morocco to Europe		
	April 2005	April 2006	April 2007
Number of Airlines	19	20	27
Number of Routes	63	83	99
Departures per Week	452	522	692
Royal Air Maroc share	60%	54%	45%

Source: SRS Analyser

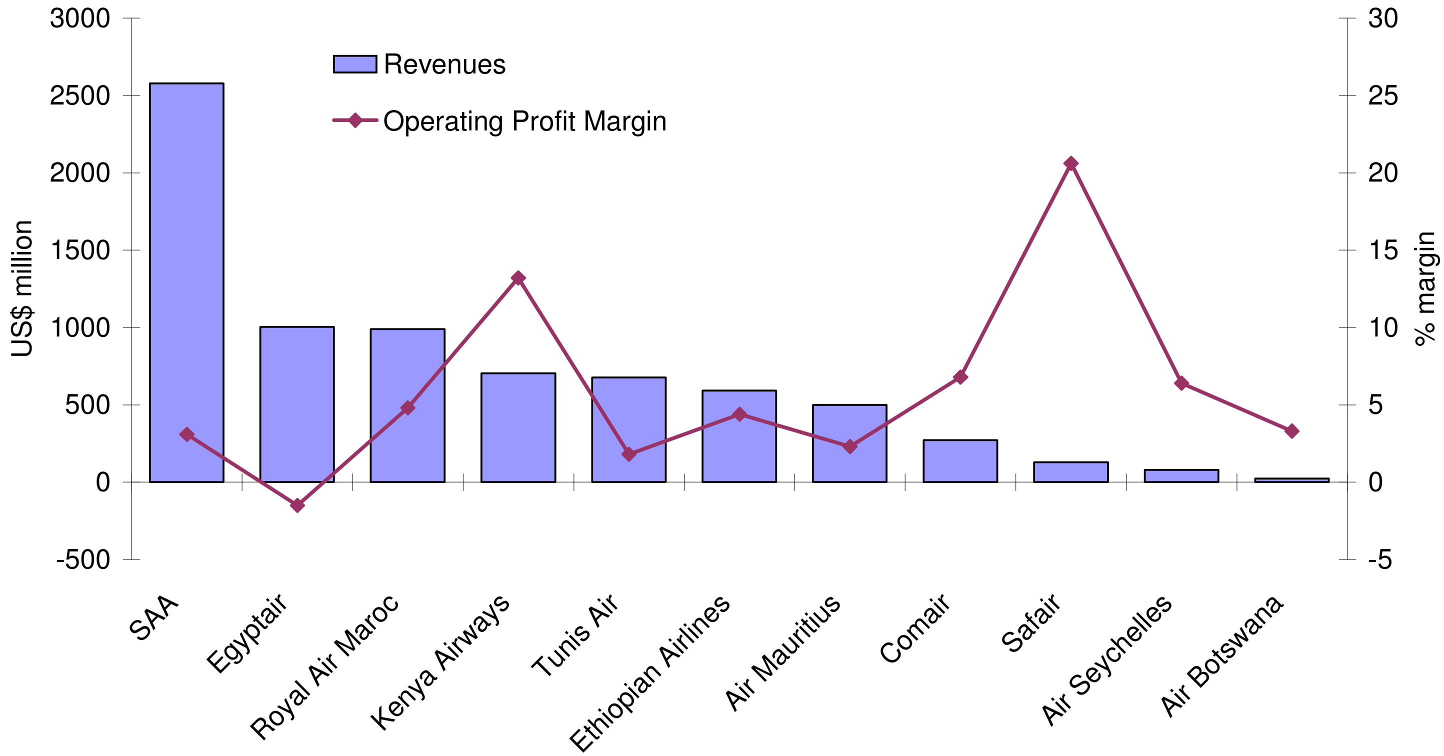
But it can be beneficial …

… creating benefits for consumers and flexible and efficient firms

- Improve capacity utilisation towards optimal levels (e.g. UK energy markets)
- Increase productivity for both incumbents and new entrants (e.g. Japanese telecoms)
- Facilitate a transfer of managerial and technological best practice (e.g. New Zealand media sector)
- Increase investment by providing firms with more efficient access to finance (e.g. Telecoms)
- Improve profitability through lower costs, improved efficiency and economies of scale (e.g. EU banking)
- Increase a firm's market value (e.g. Nestlé)

There is room for different business models

Size is not the only influence, knowing competitive advantages is key



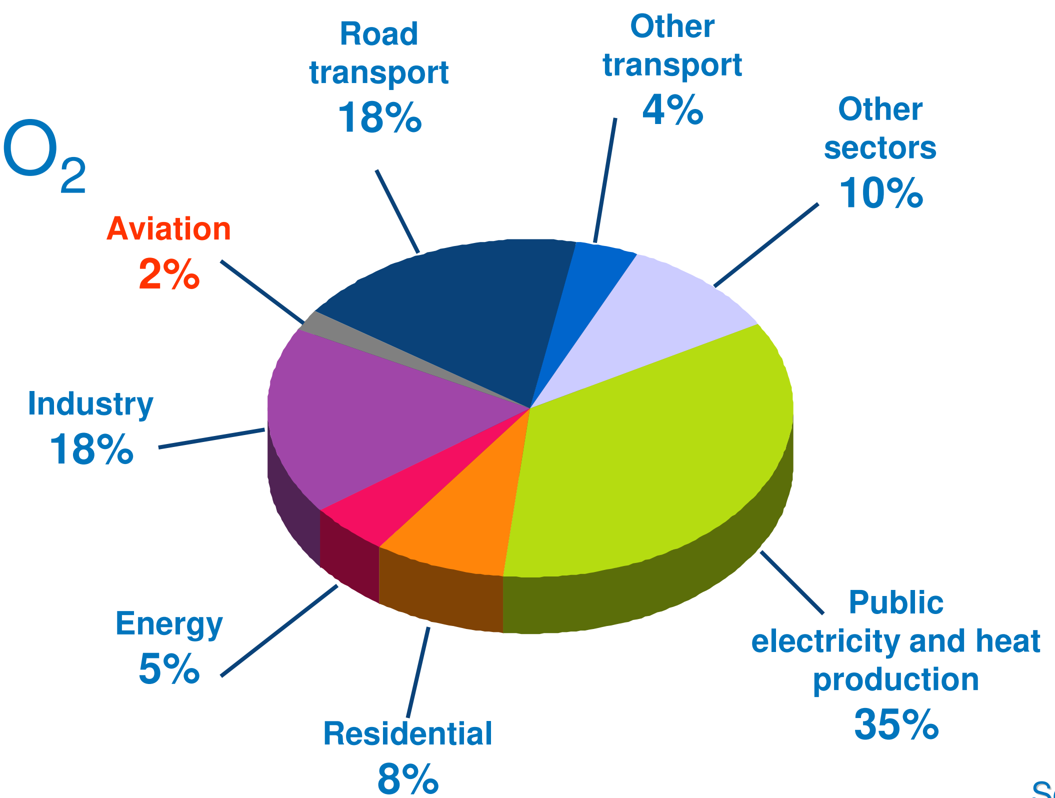
Source:
Company reports

Aviation in a global environmental context

Sustainable and responsible growth, not artificial constraints

World man-made CO_2

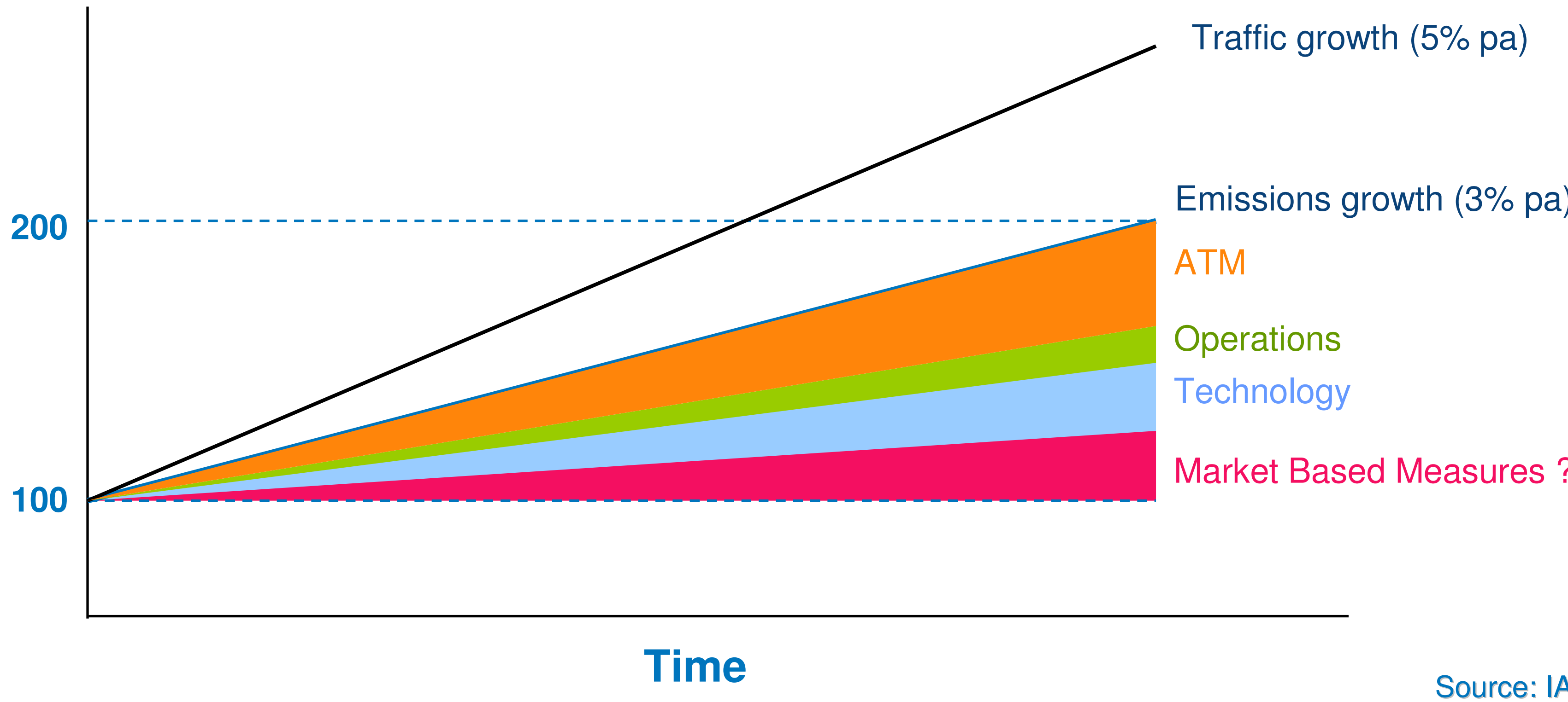
Aviation in context



Source: IEA

Decoupling emissions from future growth

Industry-wide operational improvements can have a significant impact



Source: IATA

ATAG campaign

- Cross industry communications campaign
- Speak with one voice
- Provide balance in the environmental debate
- Provide politicians and decision-makers with a *licence to support aviation*
- Provide the general public with a *licence to fly guilt-free*
- www.atag.org

Summary

- Economic growth will help to boost air travel demand in Africa.
- But investing in and improving the aviation industry can also act as an engine to improve long-term economic growth
- Large economic returns, over an above those received directly by investors and users can be obtained
- Attracting investment will require structural changes, including greater airline liberalisation
- Important to place the environmental debate in context.
- Artificial constraints put at risk significant wider economic benefits

Thank you

to represent, lead and serve the airline industry