

## BOARD UPDATE

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**To:** Dube TradePort Board **Date:** 17 March 2017

**Prepared By:** Hamish Erskine  
CEO

**Subject:** Air Services and Route  
Development Strategy 2017/2018

### 1. PURPOSE

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The purpose of this submission is to brief the Board on the current air services status at KSIA and the planned activities of the Provincial Route Development Committee to be implemented in the 2017/2018 financial year.

### 2. INTRODUCTION

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The KZN Provincial Route Development Committee (RDC) has since 2014, been actively driving the development of new air services operating at King Shaka International Airport. The RDC is jointly Chaired by Dube TradePort and KZN Tourism Authority, and includes representatives from ACSA, TIKZN, eThekweni Municipality, ILembe Municipality, Tongaat-Hulett, and the KZN and National Departments of Transport.

The key objective of the committee is to increase the number of regional and international destinations served by air from King Shaka International Airport. In fulfilling this mandate the RDC undertakes continuous market analysis and monitoring. This data is utilized to develop the Air Services Strategy, Route Development Plan, as well as specific airline business cases.

Following a number of years of international marketing efforts, in December 2015 four new services were launched; Qatar, Ethiopian, Proflight, and Turkish Airways. These joined Emirates, SA Express, Air Mauritius, and SA Airlink who were already operational. These airlines have since

been joined by Air Namibia (September 2016) and Air Seychelles (March 2017).

The RDC recognizes the need to build on the strong foundation created between 2015 and 2017. International passenger numbers have been growing in excess of 20% per annum since the start of these flights and close to 50% of international passengers to and from Durban now start their journey directly from Durban. It is of great importance that this growth and momentum are maintained and that new opportunities to grow are pursued.

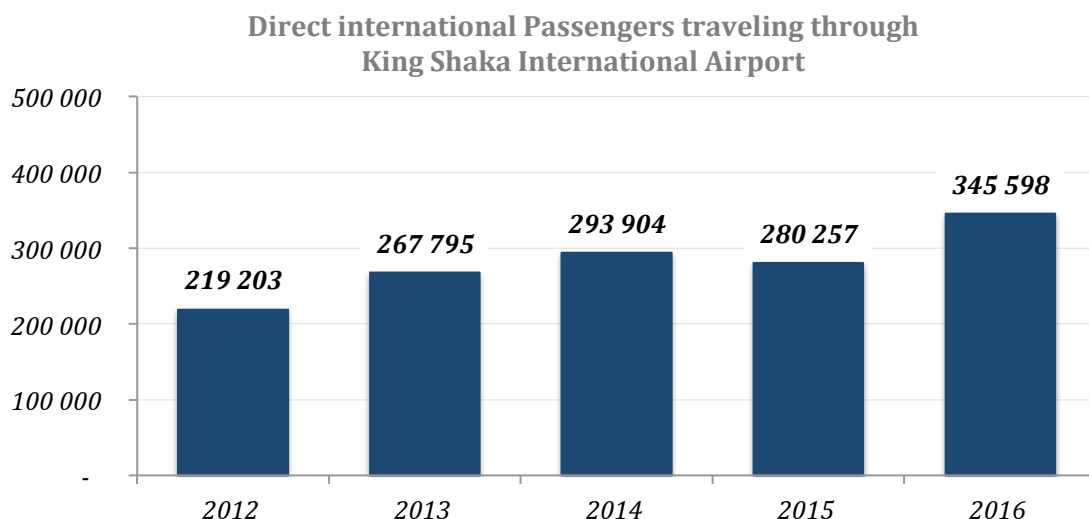
With this objective in mind the RDC has adopted plan for the 2017/2018 financial year and as outlined below.

### 3. MARKET ASSESSMENT

During 2016, 9 airlines provided direct air access to 10 international destinations from Durban, availing 517,276 seats to the traveling public for purchase. International passenger numbers to and from Durban grew by 23% in 2016 compared to 2015. The United Kingdom is the biggest passenger market followed by the United States of America and India.

#### Passenger Volumes

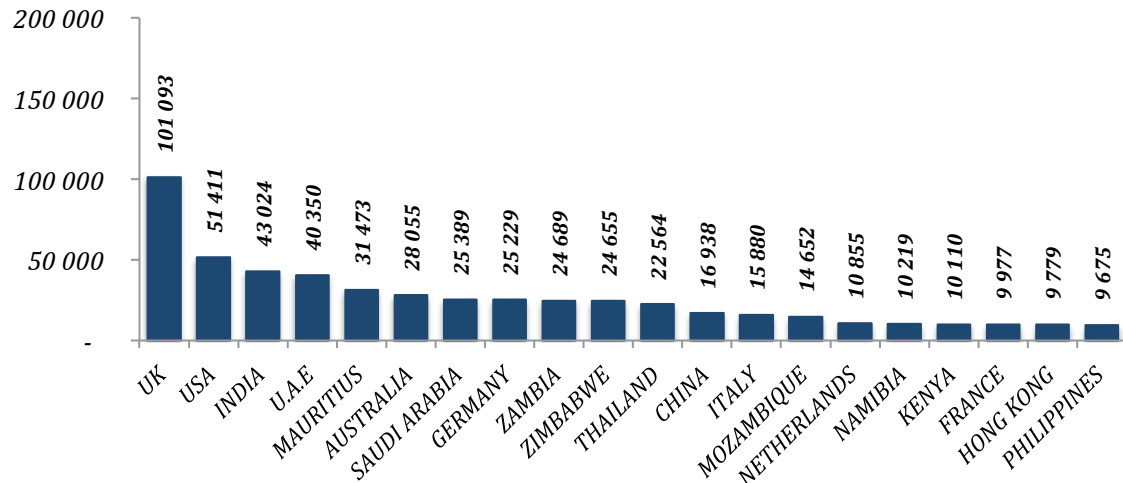
International passenger numbers to and from Durban continue to show positive growth



Data Source: Airports Company South Africa

## Top 15 Passenger Markets in 2016

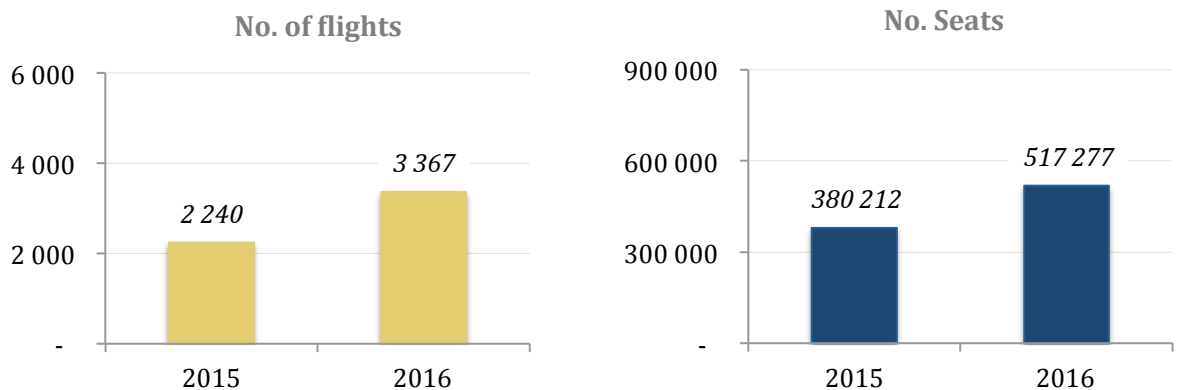
Of all the international passengers who travelled between Durban and the rest of the world during 2016, 43% of passengers travelled on direct international services to and from Durban, the rest travelled via the OR Tambo International gateway.



Data Source: Sabre ADI Passenger Market Intelligence

## Capacity

There was a 50% increase in the number of international flights that operated to and from King Shaka International Airport during 2016 compared to 2015 and increase in 36% in the number of seats offered for sale.



Data Source: Sabre ADI Schedule Data

### New Airline Customers

King Shaka International Airport welcomed one new airline customer in 2016. Air Namibia began a four a week service connecting Durban to Gaborone and Windhoek from the 30<sup>th</sup> of October 2016.

It must be also noted that Ethiopian Airlines increased its frequency from three (3) to four (4) per week in July 2016 on the Durban Addis Ababa route and AirlinK increased its frequency offering from three (3) to five (5) per week in March 2016 on the Durban Maputo route.

## 4. STRENGTHS AND WEAKNESSES

| <b>Strengths</b>  | <b>Potential Weaknesses</b>  |
|---|--|
| <ul style="list-style-type: none"> <li>- Route Development Committee in place to assist with the coordination and promotion of route development</li> </ul>             | <ul style="list-style-type: none"> <li>- Creating further awareness surrounding the air services function to business based in Durban</li> </ul>     |
| <ul style="list-style-type: none"> <li>- Air passenger market grew by 23% 2016 vs. 2015 and by 18% growth year on year since 2010 with the exception of 2015</li> </ul> | <ul style="list-style-type: none"> <li>- Creating further awareness surrounding the air services function to travel trade based in Durban</li> </ul> |
| <ul style="list-style-type: none"> <li>- Attractive route support fund in place</li> </ul>  |  |
| <ul style="list-style-type: none"> <li>- Strong marketing support team</li> </ul>   |  |
| <ul style="list-style-type: none"> <li>- Oil price and currency values (positive)</li> </ul>  |  |
| <b>Market Opportunities</b>   | <b>Potential External Threats to the King Shaka International Future Passenger Numbers</b>   |
| <ul style="list-style-type: none"> <li>- Increase of existing airline capacity or frequency on markets were passenger spill is occurring</li> </ul>                     | <ul style="list-style-type: none"> <li>- Oil price and currency values (negative)</li> </ul>   |
| <ul style="list-style-type: none"> <li>- Expand into new international destinations</li> </ul>  | <ul style="list-style-type: none"> <li>- Increasing intensity of other competing destinations such as Cape Town</li> </ul>                           |
| <ul style="list-style-type: none"> <li>- Increase cargo volumes through frequency growth on existing destinations.</li> </ul>   | <ul style="list-style-type: none"> <li>- The demise of SA Express</li> </ul>   |
| <ul style="list-style-type: none"> <li>- Increase cargo volumes through new destinations.</li> </ul>  | <ul style="list-style-type: none"> <li>- Brexit</li> </ul>   |

## 5. AIR SERVICES ACTIVITIES 2017/2018

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There are four (4) key objectives in the short-term air services strategy which are aligned to the APP targets for FY17/18, with the main focus of growing international passenger numbers by 18% and securing either 2 international new routes or an increase of frequency by an existing airline customer;

### A. Capturing future international passenger growth

International passenger numbers to and from Durban is forecasted to grow by **64,000 passengers or 18%** over the next year; by promoting Durban and KwaZulu-Natal in key source markets will ensure that all of the forecasted passenger numbers materialise. The air services strategy in FY17/18 will therefore focus on capturing future passenger growth.

Dube TradePort together with its partner entities will implement a number of marketing and promotional activities to ensure the targeted passenger growth is met. Market activations will take place in **Ethiopia, Qatar and Turkey** during the **FY17/18** period. The objective of the in-market activations is to;

- Drive awareness of the nonstop air routes to and from Durban;
- Effectively showcase the Province of KwaZulu-Natal as world class viable and trade destination;
- Market trade and investment opportunities
- Engage with key stakeholders in export and trade development, investment promotion as well as cargo and logistics;
- Promote business and leisure tourism;
- Explore the creation of strategic partnerships with key stakeholders

### B. Capacity growth on existing markets

Two airlines operating international services to and from King Shaka International Airport operate via OR Tambo International Airport which means a large proportion of the aircraft capacity is being allocated to the Johannesburg market. By encouraging these airlines to operate nonstop will allow for more aircraft capacity allocated to the Durban market.

The air services strategy will have strong focus in securing additional capacity and frequency on existing markets. Both **Qatar Airways** and **Turkish Airlines** service King Shaka International Airport through a tag service via OR Tambo International Airport in Johannesburg. **Air**

**Mauritius** operates a three a week service to King Shaka International Airport however one of the three a week services operates via Maputo.

The objectives in the short-term;

- Convert the tag service operated by **Qatar Airways** into nonstop service and increase the weekly frequency from four (4) per week to a **daily service** to and from King Shaka International Airport; this will provide additional capacity for the Durban to the rest of the world market;
- Convert the tag service operated by **Air Mauritius into nonstop service** to and from King Shaka International Airport; this will provide additional capacity for the Durban Mauritius market;
- Increase of frequency by Airlink on the **Durban Maputo route to a daily service**. 53% of the Durban Maputo passengers are currently traveling via OR Tambo International Airport.

Due to the unforeseen military coupe and the terrorist attacks in Turkey there will not be a focus to grow **Turkish Airlines**, but rather there will be a strong focus on **retaining** the existing flying schedule and improving passenger numbers.

### C. New passenger air routes

Two new routes have been identified in the short-term that will provide further direct air access to and from King Shaka International Airport. Based on current passenger market sizes and future passenger growth the air services strategy in the short-term will focus on the possibility of delivering two new international routes, **Durban – London and Durban – Mumbai**.

| Identified Markets: | Airline Targets:  | Objective: |
|---------------------|---|------------|
| Durban - London     | <ul style="list-style-type: none"> <li>- British Airways</li> <li>- Norwegian Airlines</li> <li>- Thomas Cook</li> <li>- South African Airways</li> </ul> | New Route  |
| Durban - Mumbai     | <ul style="list-style-type: none"> <li>- Air India</li> <li>- Jet Airways</li> <li>- South African Airways</li> </ul>                                     | New Route  |

There are number of dependencies related to the new route targets however the two biggest dependencies are high oil prices and weakening rand. In the case of the UK it also includes Brexit. Should both turn negative the difficulty of securing these two new routes will drastically increase. Additionally, weak economic conditions which negatively impact on the country's GDP is well documented by IATA as a factor closely linked to weak passenger growth; if GDP is not growing passenger numbers will not grow. This needs to be understood for both the SA and UK economies in the case of Brexit.

It must be noted that majority of an airlines operating cost is based in US dollars however majority of their revenue stream is based in local currency and therefore it makes it very difficult for the airline to recoup its operating costs.

**Regional Routes** that have been confirmed to begin operations in the 2017/2018 year are:

**Air Seychelles** 2 x weekly – Starting on 30 March 2017

**Rwandair** 2 x weekly – Proposed start July 2017

#### **D. Retaining existing airline customers**

Two (2) airline customers could possibly cease operations to and from King Shaka International Airport and have been identified as potential high-risk customers. The air services team will work collectively with the identified airlines on various marketing and promotion initiatives to increase passenger numbers and improve route sustainability. Both Pro-flight Zambia and SA Express have raised concerns about current performance. It is also uncertain as to what the future holds for SA Express with the possible merger of the airline into South African Airways.

**Pro-flight Zambia** operates a three (3) weekly service between Durban and Lusaka **and SA Express operates a four (4) weekly service between Durban and Harare.**

The route development committee has actively engaged with Pro-flight Zambia and a number of initiatives are underway to assist Pro-flight Zambia in improving its passenger loads. There may be an opportunity to provide Pro-flight Zambia with further support through the route development support programme.

The route development committee has tried on numerous occasions to engage with SA Express but has had no success. A contingency plan is in the process of being developed to mitigate the risk should SA Express cease to exist

## **WORLD ROUTES – BARCELONA SEPTEMBER 2017**

Dube TradePort will also participate in the annual World Routes event, which will take place in Barcelona this year. This event will be used to support all of the above activities as it includes relationship building and marketing to both existing and new airlines. It is not clear yet whether KZN will be taking a stand at the event this year. The provincial Tourism Authority normally does this. At this stage it has been confirmed that a technical team must be present as delegates to maintain airline relationships.

### **SUMMARY**

The Dube TradePort air services strategy in the short-term will have a strong focus on capturing new airline capacity on existing markets and driving future passenger growth.

## **6. RISK AND CONTROLS**

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The air services strategy and route development plan will seek to ensure that:

- The new routes do not cannibalize other routes already operated by another airline from King Shaka International Airport;
- The new routes increase the network coverage and traffic base at King Shaka International Airport by the operating carrier;
- Should any airline withdraw its services during the incentive period they shall be liable to reimburse the airport or destination the amount of subsidy granted during the corresponding period; and
- Airlines must make use of the Dube TradePort Cargo facilities.

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## 7. FINANCIAL

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| Status of Agreement: | Airline:           | Value of contract: |
|----------------------|--------------------|--------------------|
| Expired              | Air Mauritius      | R1 061 572         |
| Expired              | SA Express         | R5 318 142         |
| Committed            | Ethiopian Airlines | R6 604 763         |
| Committed            | Turkish Airlines   | R32 607 961        |
| Committed            | Air Namibia        | R1 421 235         |
| Committed            | Air Seychelles     | R1 633 841         |
| <b>Total:</b>        |                    | <b>R48 647 514</b> |

The above table shows the value of the Route Development Support that Dube TradePort has either committed or spent since the inception of the support programme in June 2012. With both London and Mumbai targeted for the upcoming 12 to 24 months, estimates have been made on the funding required for these routes and the Route Development Fund will be resources accordingly.

## 8. RECOMMENDATION

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Dube TradePort Board:

- Notes the objectives and planned activities of the Provincial Route Development Committee for the 2017/2018 financial year.

### Signed

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Prepared and submitted by:

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**Hamish Erskine**  
CEO

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**DATE**