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Grant Thornton Office Park
137 Daisy Street
Sandown
Johannesburg 2196

Private Bag X28
Benmore 2010

Dx 169 Randburg
T +27 (0)11 322-4500
F +27 (0)11 322-4767
www.gt.co.za

Limpopo Dept of Roads & Transport

Summary of situation analysis report for development of Limpopo aviation strategy

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Section 1

Introduction

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Introduction

Introduction

The Limpopo Department of Roads and Transport ("**the Client**") appointed Grant Thornton and Arcus GIBB to develop an airlift strategy for the Limpopo province – taking into consideration both passenger and freight commercial aviation and general aviation.

This document provides a summary of the situation analysis of the aviation industry in Limpopo in preparation for the development of the aviation strategy.

Objectives of the study

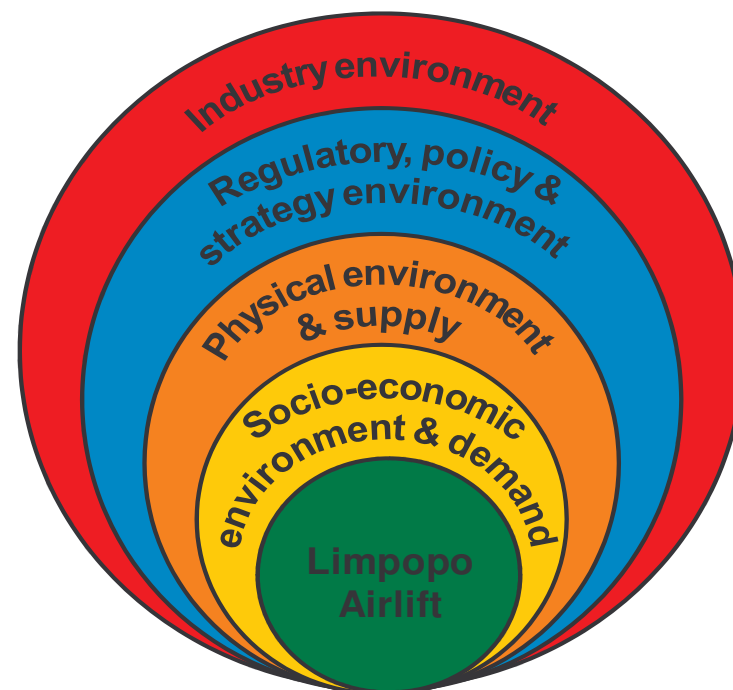
The two key objectives of the airlift strategy are to:

- Develop a strategy / model whereby air transport in the Limpopo province can be developed and expanded in such a way that the existing airports are utilised to capacity and demand for air transport (from both a freight and passenger perspective) is being met; and
- Define the role that the Department of Roads and Transport and other stakeholders should play within the realm of air transport in the province.

Our approach

Aviation does not occur in isolation – it is both an enabler of the economy, and is enabled by the economy. Therefore it is imperative to understand the environment within which aviation and airlift exists – as illustrated.

Our study covers both commercial and general aviation.



Section 2

Commercial aviation

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Commercial aviation

Global, African and South African context

- The global commercial aviation industry is extremely competitive, with airlines operating on very tight profit margins. Fuel comprise about 25% of all operational expenditure.
- African airlines generally operate at lower load factors than those in other parts of the world – in the case of freight at about half the global average – and this limits the development of commercial aviation in Africa. In addition, many African countries still have a national carrier that is protected by the government of that country against the introduction of competitive airlines.
- Air freight currently comprise a small proportion of global freight volumes (less than 1%) , but it accounts for 30-40% of freight value. In Africa, about half of all freight is handled by South Africa, Egypt and Kenya.
- In South Africa, the number of passengers has grown over the last couple of years – to a large extent due to the introduction of low-cost carriers. The number of passengers declined in 2009 as the effects of the global recession were felt, but there seems to be some recovery in the first few months of 2010.
- An increasing number of air service agreements are being concluded with African and other countries, and the implementation of the Yamoussoukro Declaration is gaining momentum.
- OR Tambo International is South Africa's aviation cargo hub, and 80%-90% of air freight in South Africa is carried as belly freight in passenger aircraft.
- Generally, aviation – both from a passenger and freight perspective – is expected to grow in the long term, despite the setbacks experienced during the global financial crisis.

Realities of commercial aviation

Profitability is a key consideration for airlines , and they consider both the profitability of a route and the profitability of connecting passengers for the rest of their network.

In order to decide on a new route, an airline will firstly consider the potential demand for the route.

Realities of commercial aviation (cont.)

A relatively high load factor is preferred – or the possibility that the load factors will reach a certain level within a relatively short space of time. Low-cost carriers require at least an 80% load factor, preferably twice a day, in order for a route to be profitable, , and with most of them needing about 110 passengers per flight on a twice-daily bases, that means that there should be at least 220 passengers flying in and 220 passengers flying out per day (just more than 80 000 per annum in each direction) to make it viable for a low-cost carrier to fly a particular route..

Once demand is established – a significant number of other factors need to be considered that will impact both cost and revenue as illustrated below.



Commercial aviation (cont.)

Aviation in Limpopo

There are currently 3 airports in Limpopo that offer scheduled passenger services, i.e. Polokwane International Airport ("PIA"), Kruger Gateway Airport (Phalaborwa) and Eastgate Airport (Hoedspruit). Airlink provides scheduled passenger services from OR Tambo International Airport ("ORTIA") to PIA and Kruger Gateway (which it also owns), and SA Express offers services from ORTIA to Eastgate (in which they also have an interest).

Airport	Operator	Route	Frequency	Size aircraft	Estimated scheduled passengers handled (2009)
Polokwane International Airport	Airlink	Johannesburg - Polokwane	4 flights a day (Mon – Fri) 3 flights a day (Sun) 2 flights a day (Sat)	29 or 37 seater	45 000
Kruger Gateway Airport (Phalaborwa)	Airlink	Johannesburg - Phalaborwa	2 flights a day (Sun – Fri) 1 flight a day (Sat)	29 seater	20 000
Eastgate Airport (Hoedspruit)	SA Express	Johannesburg - Hoedspruit	2 flights a day	50 seater	48 000

An estimated 113 000 passengers made use of these services in 2009.

Air freight is limited in Limpopo at present (only about 65 tonnes transported by Airlink in 2009), mainly as a result of the small aircraft used on scheduled routes.

Key factors limiting growth of commercial aviation in Limpopo

Given the realities of commercial airlines, there are a number of key factors that limit the potential of Limpopo to grow commercial aviation in the province:

Aviation in Limpopo (cont.)

Key factors limiting growth of commercial aviation in Limpopo (cont.)

At Polokwane International Airport:

- Limited demand – with relatively low volumes on routes at present, the preference of government officials for road travel and a low-income earning population – difficult to switch demand from road to air travel
- High fares on the route from ORTIA to PIA limit the demand
- Short distance from ORTIA which makes the route more expensive to operate and limits the potential of introducing real low cost fares
- Limited high-value produce available for air freight
- Small aircraft on route does not allow for growth in belly freight, and demand is too low at present for dedicated freight aircraft
- No freight handling facilities

At Kruger Gateway Airport:

- As it is owned by Airlink, they may keep out competition
- Airlink operates smaller aircraft, which is more expensive to operate and therefore result in higher fares, which in turn limits the demand for passenger services on the route
- The runway is too short for large aircraft

At Eastgate Airport:

- SA Express has an interest in the airport and may use their influence to keep competitors out
- Expansion of facilities limited by agreement with the SA Air Force
- Demand is purely driven by tourism and adverse tourism conditions could negatively affect passenger aviation services

Commercial aviation (cont.)

Aviation in Limpopo (cont.)

Key factors limiting growth of commercial aviation in Limpopo (cont.)

At Lephalale, Thohoyandou and Giyani Airports:

- Lack of demand for scheduled passenger aviation
- Lack of facilities / facilities in poor condition

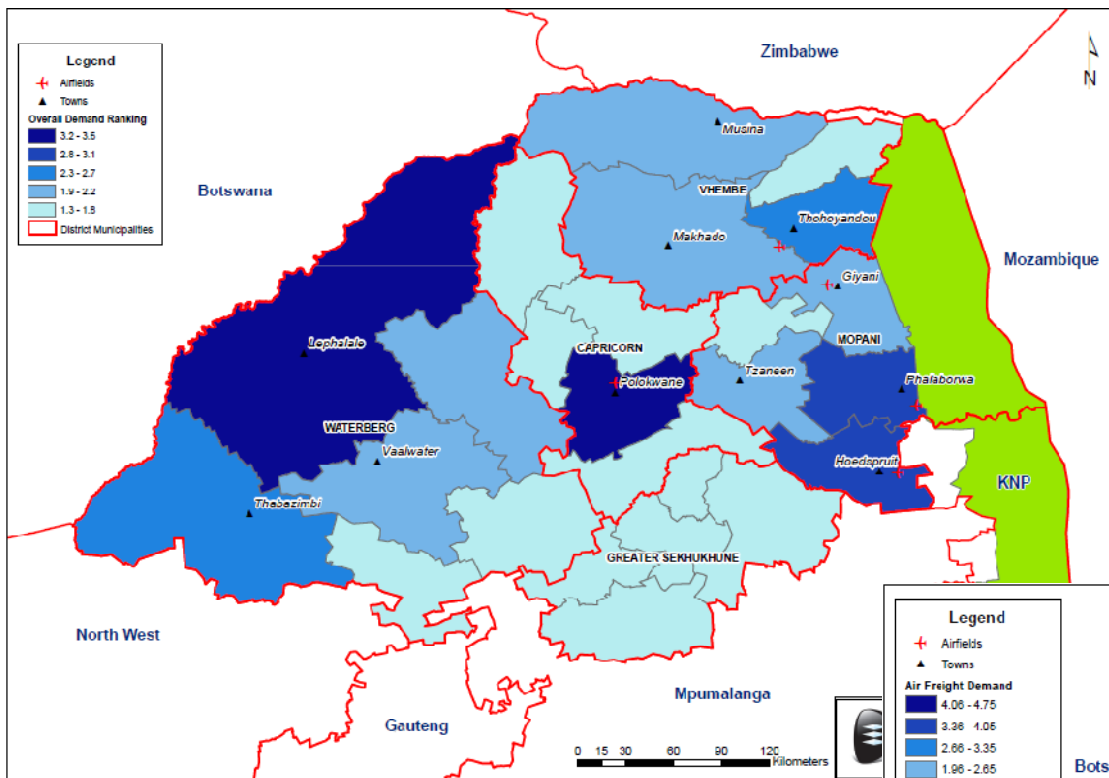
Opportunities and recommendations for the development of commercial aviation in Limpopo

The facilities available at the three airports in Limpopo offering scheduled passenger services are such that they can handle significantly increased volumes of passengers without having to expand their facilities, particularly PIA.

Interventions would have to be implemented to stimulate demand for air travel to and from Limpopo.

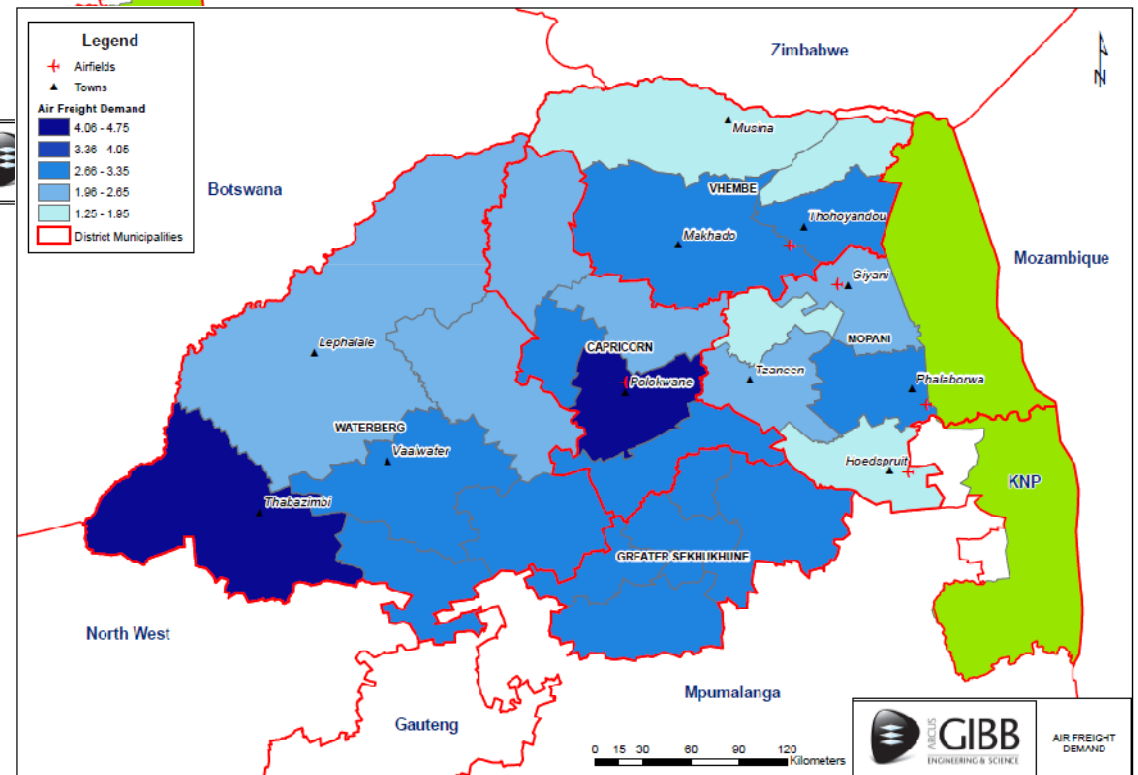
There may be opportunities for routes between Limpopo and other SADC countries.

The most appropriate location for an air cargo hub in Limpopo is at Polokwane International Airport, though it will require significant effort to establish the airport as an alternative to ORTIA.



Passenger demand potential based on demographics, political support, tourism potential, availability of facilities and general aviation capacity

Freight demand potential based on distance to ORTIA, estimated air freight volumes, manufacturing vs agriculture and contribution to provincial GGP



Section 3

General aviation

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General aviation

Introduction

General aviation (“**GA**”) commonly refers to that part of the aviation industry that engages in activity other than scheduled commercial airline activity. This may include charter operators, aero medical operators, agricultural aviation businesses, aviation-based fire-fighting services, training and aerial work such as aerial photography and surveying. It also includes private, business, recreational and sports aviation activity and supporting businesses such as maintenance providers and aircraft manufacturers. However, GA can potentially serve a broad spectrum of economic sectors and has very broad uses.

GA has the following advantages:

- In some instances (dependent on route similarity and aircraft type used), shorter door to door travel time than large commercial airports
- Better scheduling flexibility
- Better security

GA Trends

The expansion of the global economy has impacted positively on the development of general aviation around the world. However, the global economic crisis had a negative impact on this industry, with fewer new aircraft being ordered and manufactured.

The Aircraft Owners and Pilots Association in the USA represents about 414 000 members, while in South Africa, this organisation has about 2 000 members.

Just over 9 100 aircraft (including homebuilt, certified and airline aircraft) are registered in South Africa, of which the majority are registered in Gauteng. Apart from the Northern Cape, Limpopo has the smallest number of aircraft registered of all the provinces (478, or 5,2% of all registered aircraft in South Africa).

GA requirements

In order to facilitate GA, airports and airfields should offer the following facilities.

At minimum:

- Fuel
- Safe landing strips / runways that are well-maintained
- Security for parked aircraft, with designated parking bays and tie-downs for lighter aircraft
- Friendly and efficient air traffic controllers
- Friendly and efficient customs & immigrations officials – available at a variety of locations to enable different routings
- Reasonable / competitive landing and other fees
- Airfields within relative close proximity to tourism destinations
- Car rental and/or taxi services from the airport

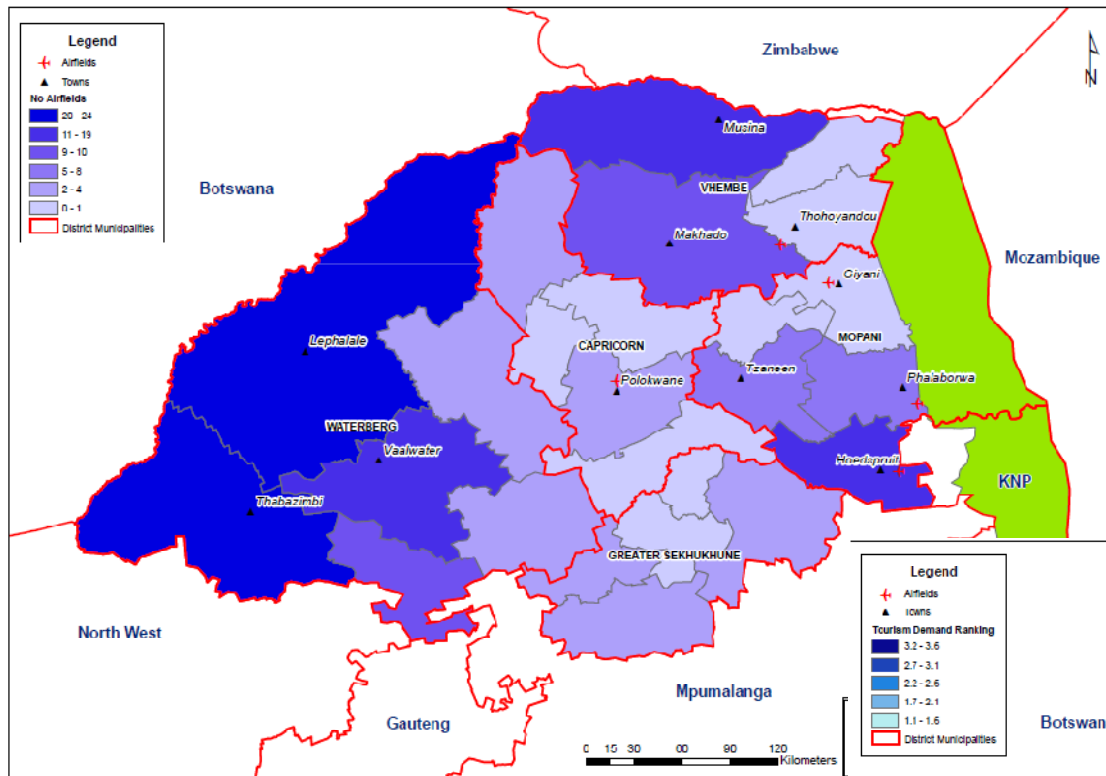
Preferably:

- Affordable hangar space – for rent or to build own
- Training airspace close to airport
- For aircraft maintenance operations, sufficient space to park aircraft that are being serviced
- Kiosk with drinks and snacks (nice to have)

GA opportunities in Limpopo

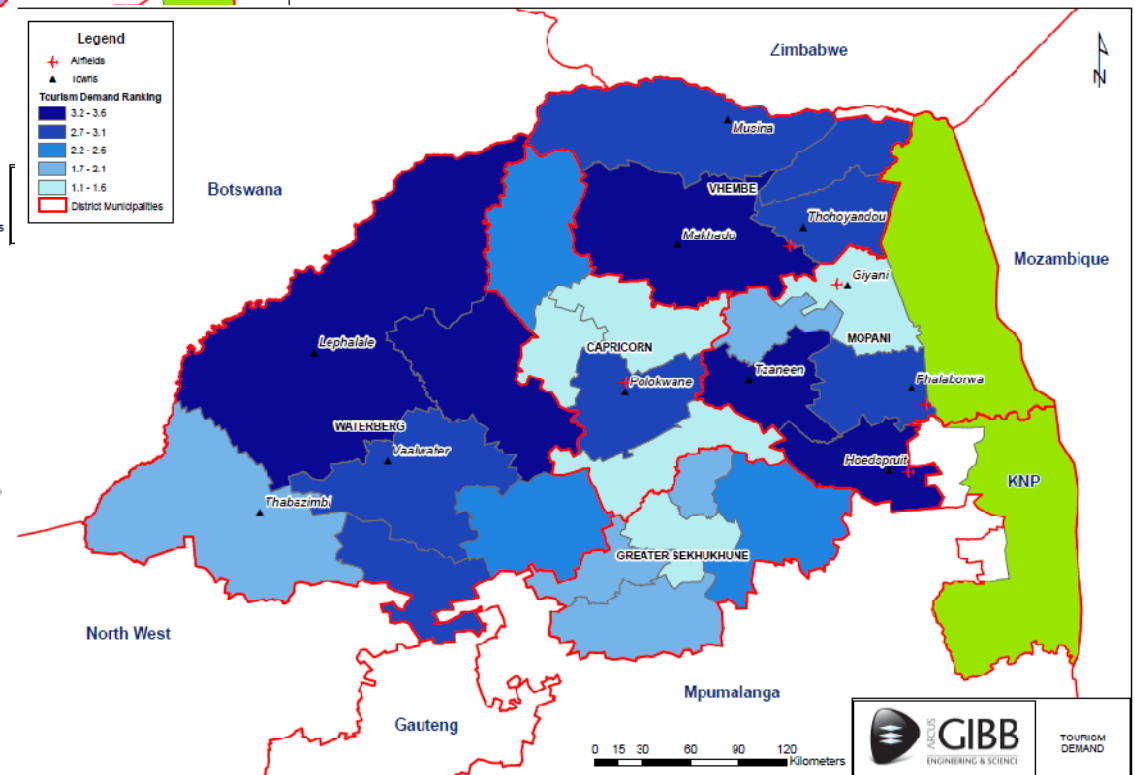
If customs & immigration could be available at Eastgate it would improve the opportunity for linkages with Mozambique and other SADC tourism destinations.

Airports / airfields complying with the above minimum requirements could stimulate tourism to such destinations and provide some employment opportunities (e.g. Thohoyandou).



← Number of airfields in Limpopo, by local municipality

Tourism potential of destinations in Limpopo, by local municipality →



Section 4

Conclusion

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Conclusion

Aviation in general

Generally, growth is expected in the global aviation industry, which holds promise for Limpopo. In addition, Africa presents some opportunities that are currently not fully exploited.

Though aviation in Limpopo is impacted by the global aviation industry, the province has very little control over these impacts. Aviation development in the province should be stimulated with the global context in mind.

Commercial aviation

There are opportunities to stimulate passenger demand – through interventions, but to develop air freight capacity within the province will take significant effort and investment.

The airports that currently handle scheduled services would be best placed to handle additional commercial aviation, with Polokwane International Airport being the most appropriate location for air freight capacity within the province.

General aviation

GA provides an opportunity to stimulate tourism to the province, which in turn would benefit the province's economy – in particular in rural areas.

Airports such as Thohoyandou, Lephalale and Musina could benefit from increased GA activity, dependent on the required upgrades being conducted.

Towards strategy development

The situation analysis raises a number of questions that will be answered by the strategy, such as:

- What is the importance that needs to be given to Polokwane airport in the context of the airlift strategy?
- Should the strategy include other airfields/airports or not?
- Should the focus be on scheduled or non-scheduled aviation?
- Does the strategy focus on growing the existing market, or does it need artificial stimulation?
- Is the focus on routes (market-driven) or airlines (supply-driven)?
- What level of support are there for private airports vs government-owned airports?
- Etc.

The information on the existing situation, together with the views of the stakeholders, will determine the answers to the above.

Strategy development process

