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NORTHERN CAPE AIRLIFT

OCTOBER 2024

ACSA: BUSINESS DEVELOPMENT

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OCT 2024

PROJECT STRUCTURE

IMPORTANCE OF AIR TRAFFIC DEVELOPMENT

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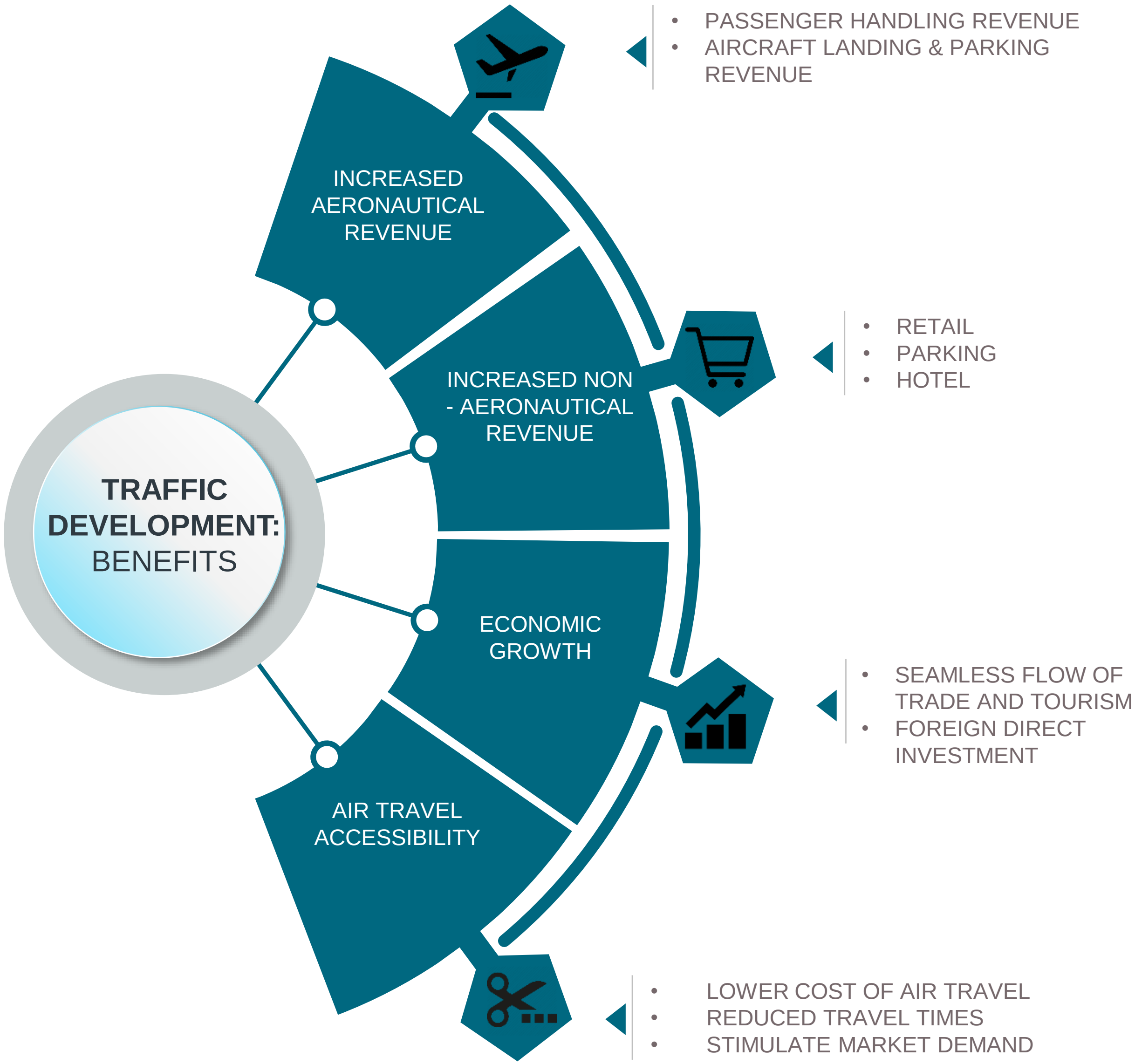
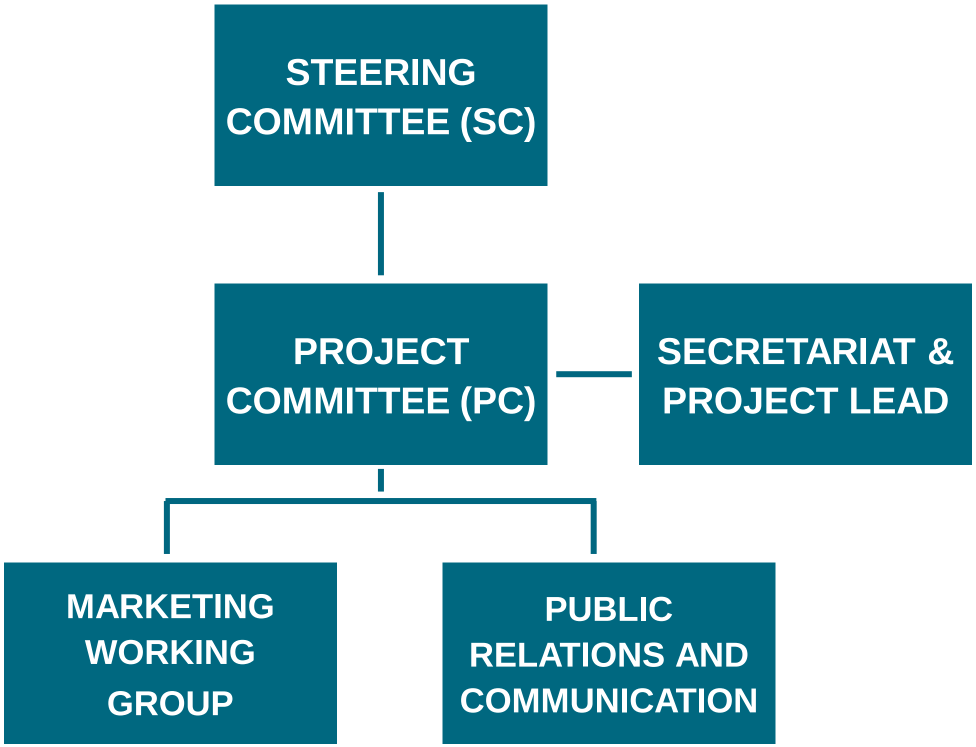


Air connectivity is key to unlocking the country's economic growth potential and airports play a catalytic role as key enablers and facilitators of travel.

To this end, airport's mandate is to 1. development and efficiently operate infrastructure 2. enhance a region's domestic and global air connectivity, to ultimately improve a destination's attractiveness and contribute to the development and growth of tourism.

PROJECT STRUCTURE



An entity generally houses the project, and thereby becoming the secretariat, and principal funder. ACSA generally will provide technical support

1. The SC will provide oversight and strategic direction
2. The PC will implement and manage the project
3. The marketing working group will coordinate joint marketing campaigns to promote the destination and supporting new routes
4. The PR and Comms working group will coordinate events and the effective communication of Air Access activities.
5. Project leads will be responsible for engaging airlines on potential route opportunities

COLLABORATIVE PARTNERSHIP: ACSA CASE STUDY

Gauteng Air Access is a collaborative route development partnership that brings together the three spheres of government [local, provincial and national] and other stakeholders within the tourism and aviation value chain.

AIRPORT POSITIONING

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An Airport's positioning is closely related to the positioning of the destination it serves

Each of the potential partners fulfils a dedicated role contributing to the overall success of attracting visitors to a destination

Role of partners

Airline
- Act as mode of transport for granting access to a destination
- Provide marketing infrastructure and marketing best practice
- Support and execute promotion activities

DMO
- Position/brand destination
- Elaborate tourism statistics and content for promoting destination
- Support and execute promotion activities

Airport
- Act as gateway to a destination
- Support and execute promotion activities

Government
- Set regulatory framework for driving tourism (e.g. visa requirements)
- Sustain cultural heritage and safeguard needed infrastructure
- Support promotion activities

Tour operator
- Act as facilitator for travelling
- Provide distribution channel(s)
- Provide information on local market and marketing best practice
- Support promotion activities

Local businesses
- Offer needed services and products
- Support promotion activities

COLLABORATIVE PARTNERSHIP

Collaborative partnerships create a platform to increase destination and airport attractiveness

Partnerships which seek a rise of visitor numbers to a destination are a win-win situation for both the private and the public sector

Stakeholder benefits

Private sector

- Increase revenues
- Maximise utilisation of capacity
- Increase brand awareness and reach

Public sector

- Establish a sustainable connectivity of the region
- Grow local economy
- Create new jobs
- Boost tax revenues

Key stakeholders must collaborate and align their strategies to maximise the number of visitors to South Africa

Guidelines for successful partnerships

- All partners should be equal in decision making and receive the target benefit
- All partners should share a common goal or mission towards which all efforts are directed
- A letter of agreement should be set up to document roles, duties, financial commitments and duration of the partnership
- Steady communication between the partners should take place to discuss strategies and problems
- Reviews should be regularly conducted to evaluate the success of the partnership and make necessary adjustments

MARKETING

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Market development through marketing is integral to route development, and it's a conduit for airports to position themselves in the marketplace

- Attract new airlines to launch new air services or to increase the frequency/ capacity of an existing one
- Compete with other airports that either seek to attract new air services or to expand existing ones
- Reduce the (financial) risk of an airline when starting a new air service or when increasing the frequency and/or capacity of an existing one

→ **B2B marketing tools**

- Create passenger awareness and demand when launching an air service or when increasing capacity of an existing ones
- **Promote the airport as a gateway to the destination and the catchment**

→ **B2C marketing tools**

AIRLIFT STRATEGY AND PERFORMANCE

AIRPORT SYSTEM INTEGRATION

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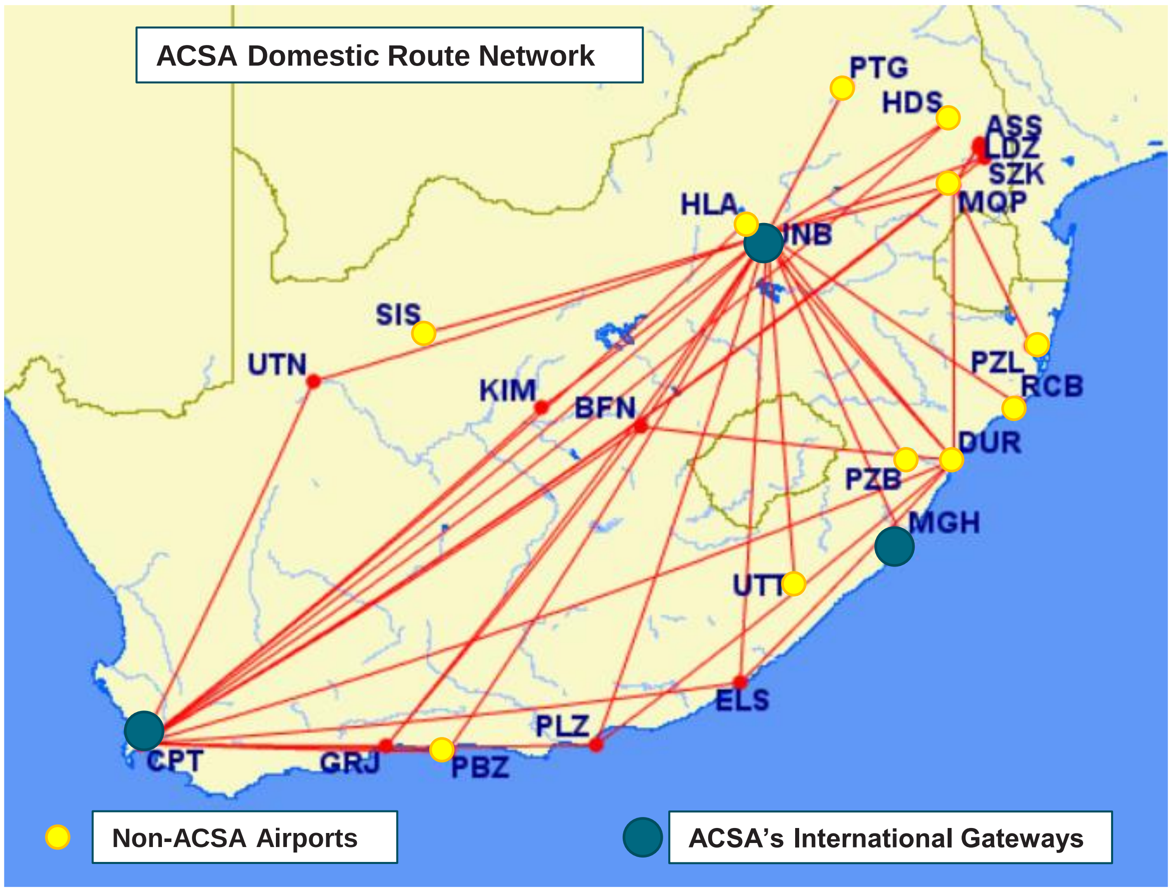
Design and operate an integrated airport network, and developing an extensive global route network to facilitate the seamless flow of goods and passengers



- ACSA's strategy is to design and operate an integrated airport network anchored by the three international gateways (ORTIA, CTIA and KSIA). ACSA aims to integrate all non-ACSA airports within South Africa, by developing route networks to create a synchronised South African Airport system.
- An integrated airport system will facilitate the seamless flow of goods and passengers, and will provide enhanced global connectivity, facilitating trade and tourism within South Africa.

DOMESTIC UNSERVED MARKETS

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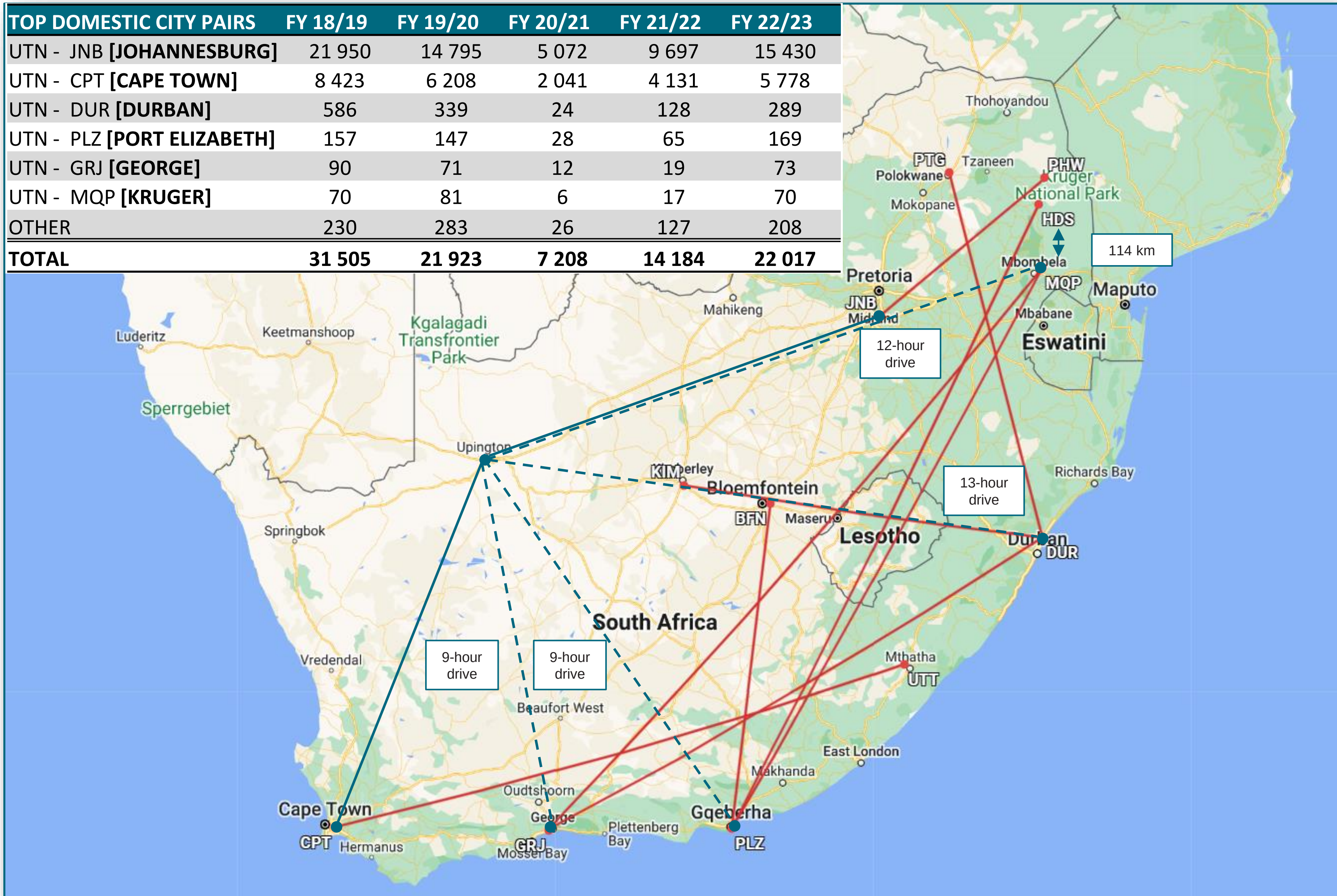
TOP DOMESTIC CITY PAIRS	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
UTN - JNB **[JOHANNESBURG]**	21 950	14 795	5 072	9 697	15 430
UTN - CPT **[CAPE TOWN]**	8 423	6 208	2 041	4 131	5 778
UTN - DUR **[DURBAN]**	586	339	24	128	289
UTN - PLZ **[PORT ELIZABETH]**	157	147	28	65	169
UTN - GRJ **[GEORGE]**	90	71	12	19	73
UTN - MQP **[KRUGER]**	70	81	6	17	70
OTHER	230	283	26	127	208
TOTAL	**31 505**	**21 923**	**7 208**	**14 184**	**22 017**



RECOVERY BY AIRPORT COMPARISON

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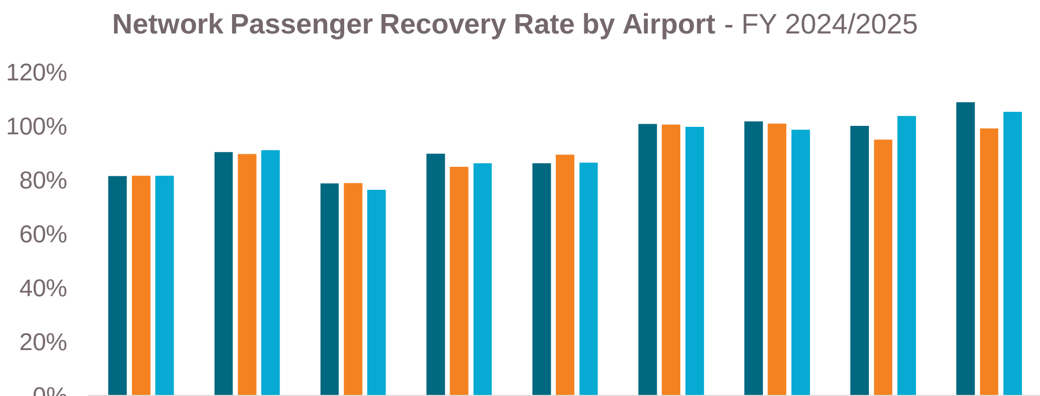
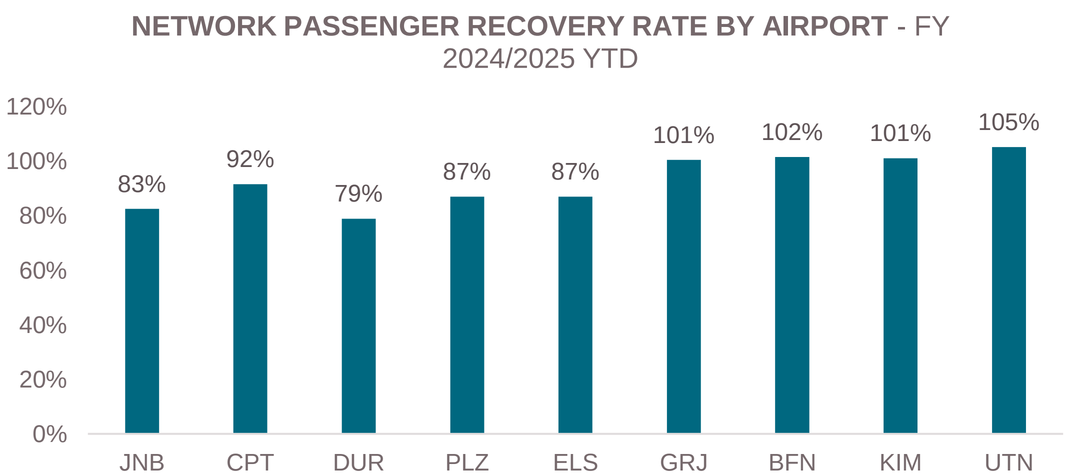
Tourism remain key to unlock recovery, and domestic regions with low proportions of tourism need to enhance and develop their tourism product, to accelerate recovery



	JNB	CPT	DUR	PLZ	ELS	GRJ	BFN	KIM	UTN
JUN	82%	90%	79%	90%	86%	101%	102%	100%	109%
JUL	82%	90%	79%	85%	90%	101%	101%	95%	99%
AUG	82%	91%	77%	86%	87%	100%	99%	104%	105%

JUN JUL AUG

Source: ACSA Internal, 2023



Source: ACSA Internal, 2024

Across the network, regional inland airports such as Upington, Kimberley and Bram Fischer continue to boast higher recovery rates. The has been a significant reduction in Leisure Air Travel demand because of higher ticket prices. And, a high inflation and high interest rates environment continues to reduce buying power and hamper consumer confidence. As a result, coastal airports, which are reliant on leisure traffic have lagged in their recovery.

Corporate traffic continues to play a significant role in the recovery of passenger traffic across ACSA's network of airports (although current level of corporate traffic is lower relative to pre-COVID levels). Tourism remain key to unlock recovery, and domestic regions with low proportions of tourism need to enhance and develop their tourism product, to accelerate recovery.

MARKET SEGMENTS & FDI

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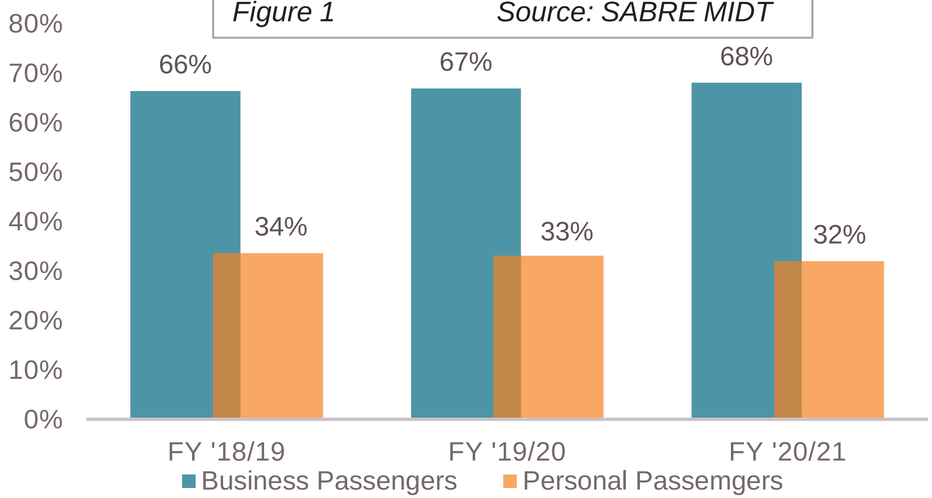
Upington Air Travel Market Segments

Figure 1 *Source: SABRE MIDT*



FY '20/21		
O-D	**Business Passengers**	**Personal Passengers**
UTN - JNB	68%	32%
UTN - CPT	69%	31%

- The development of a Special Economic Zone at Upington has attracted FDI from international companies particularly in the renewable energy sector, mining and other down stream industries.
- As a result, Upington is largely a corporate market, with the Business Traffic accounting for 67% of total traffic to and from Upington international Airport.

Investing Company	Source Country	Capital investment (Million USD)
ACWA Power International	Saudi Arabia	$ 1 512
Vedanta Zinc International	United Kingdom	$ 1 434
Abengoa	Spain	$ 1 261
Enel Green Power	Italy	$ 1 247
Anglo American	United Kingdom	$ 1 000
Mainstream Renewable Power	Ireland	$ 962
Sesa Sterlite	United Kingdom	$ 630
Building Energy	Italy	$ 577
Scatec Solar	Norway	$ 464
Lekela Power	Ireland	$ 385
SolarReserve	United States	$ 300
Sunpower	France	$ 200
Jupiter Mines	Australia	$ 200
Sonnedix Solar	Netherlands	$ 192
Globeleq Generation	United Kingdom	$ 192
Longyuan SA	China	$ 192

Source: FDi Markets

INTERNATIONAL SOURCE MARKET ANALYSIS

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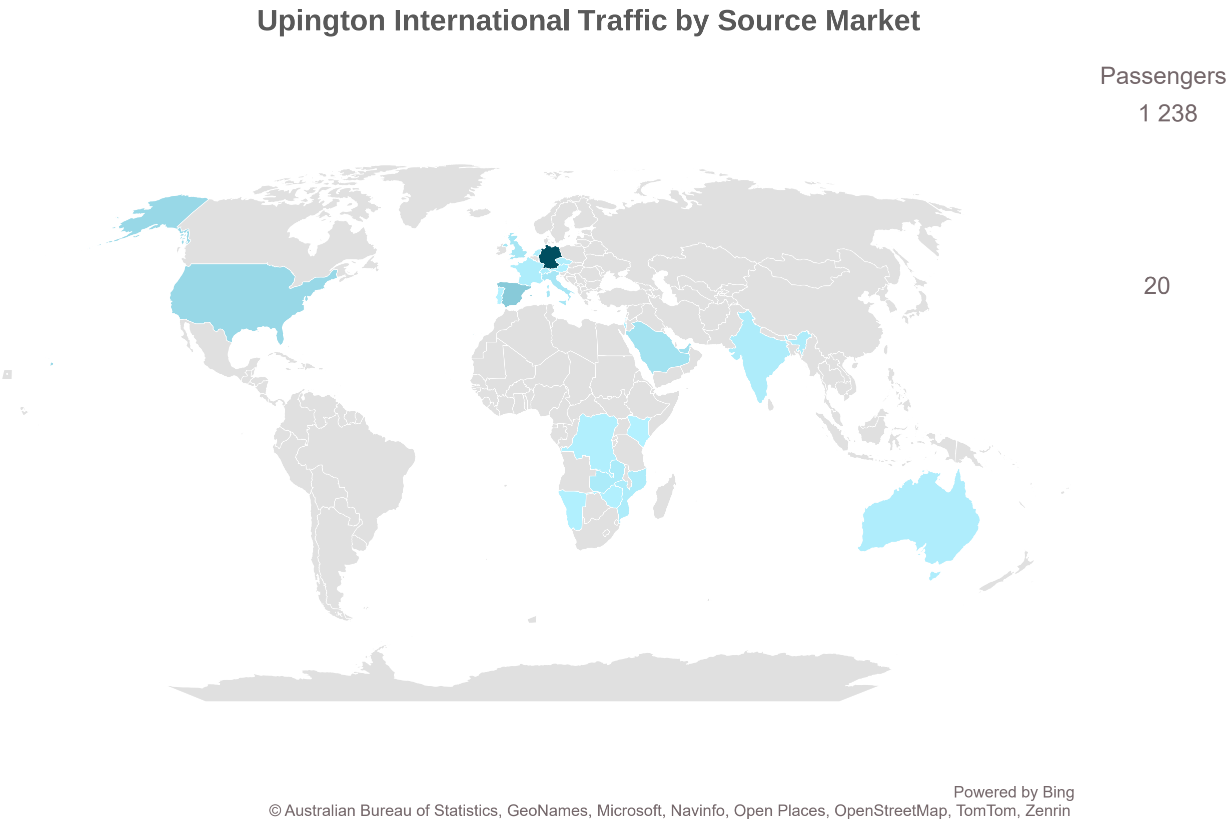
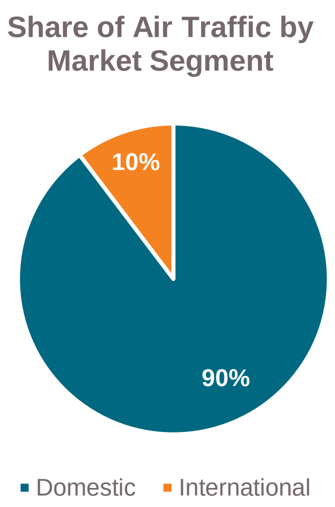


Air Traffic Markets	Passengers
Germany	1 238
Spain	309
United States	204
United Kingdom	105
United Arab Emirates	145
Italy	99
Saudi Arabia	132
France	53
India	55
Czech Republic	47
Switzerland	43
Zambia	65
Mozambique	56
Netherlands	47
Portugal	21
Austria	26
Australia	46
Zimbabwe	24
Israel	24
Namibia	30

Foreign Direct Investment (FDI) and Trade are closely linked to the structure of a destination or airport's international air passenger traffic, particularly for airports and destinations that serve as global business hubs. Increased air connectivity enables easier access for international investors, business travellers, and trade delegations, facilitating face-to-face meetings, site visits, and negotiations that are critical to establishing and growing cross-border investments.



MARKET RESEARCH AND INTELLIGENCE

CATCHMENT AREA

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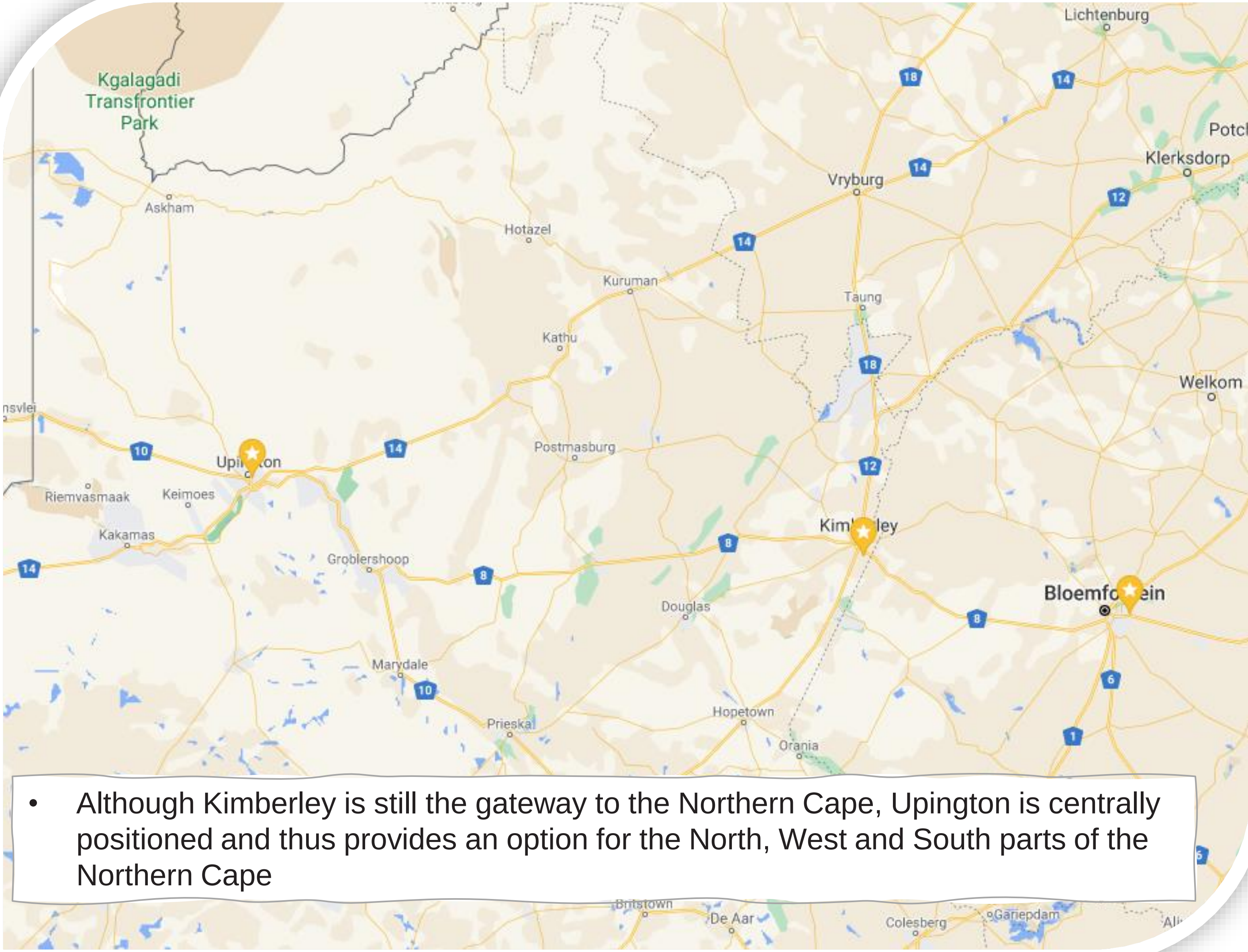

- Although Kimberley is still the gateway to the Northern Cape, Upington is centrally positioned and thus provides an option for the North, West and South parts of the Northern Cape

UPINGTON ROUTE NETWORK

- **Airlink** is the only carrier operating into Upington, providing direct links to both Cape Town and Johannesburg.
- ORTIA and CTIA provide Upington with access to global markets through their vast international route links.
- Airlink currently serves its Upington routes with an Embraer ERL-135 (34/37 seats).
- Days of operations are largely weekdays, with limited weekend services.

ORIGIN	DEPARTURE TIME	DESTINATION	ARRIVAL TIME	EQUIPMENT	DAYS OF OPERATION
CPT	06:45	UTN	08:05	ER3	12345--
UTN	08:30	CPT	09:50	ER3	12345--

ORIGIN	DEPARTURE TIME	DESTINATION	ARRIVAL TIME	EQUIPMENT	DAYS OF OPERATION
JNB	07:10	UTN	08:40	ER3	12345--
UTN	09:05	JNB	10:30	ER3	12345--
JNB	15:35	UTN	17:05	ER3	12345-7
UTN	17:30	JNB	18:55	ER3	12345-7

AIR TRAVEL DEMAND

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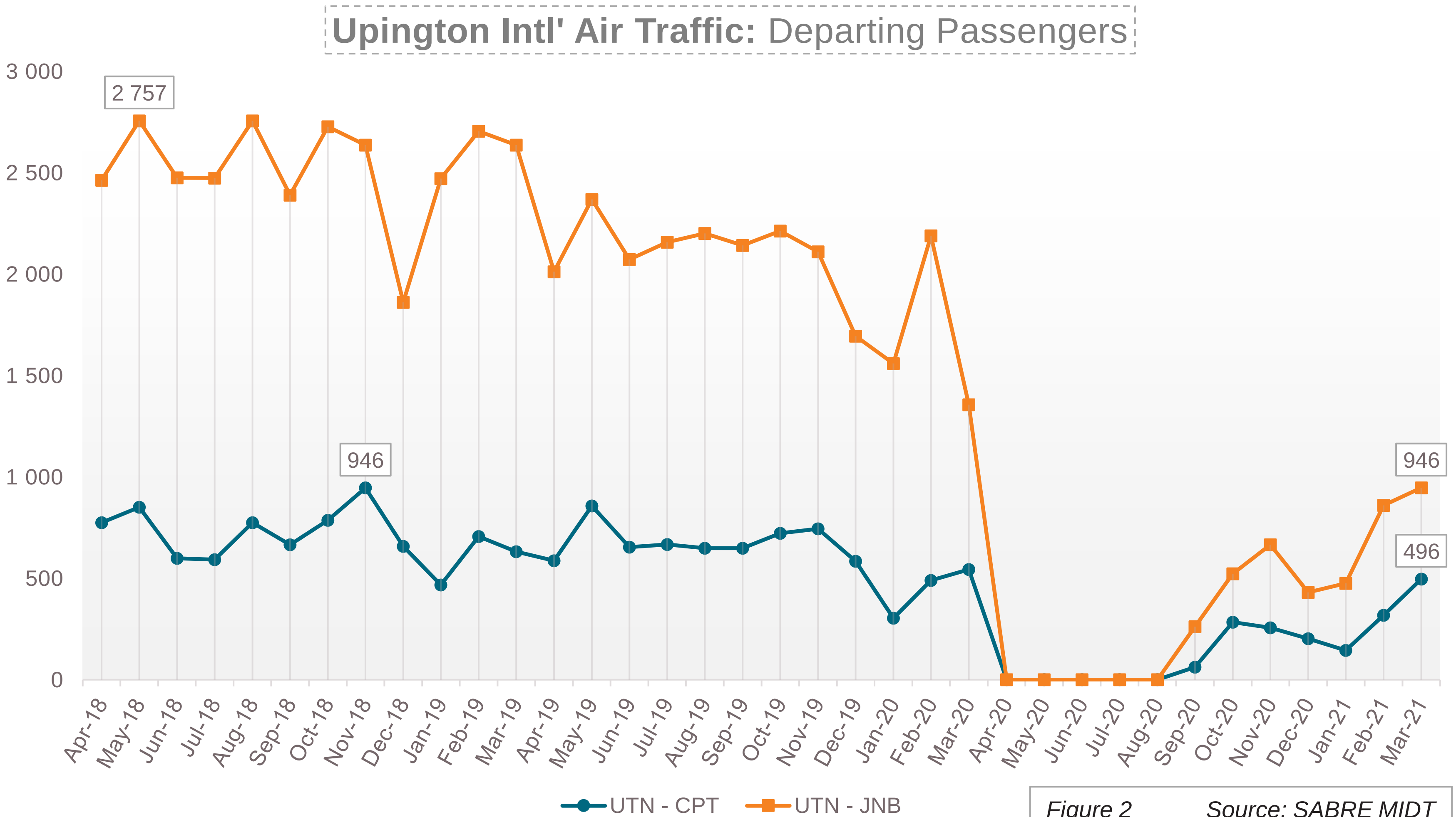

Figure 2 *Source: SABRE MIDT*

- Air travel demand in Upington has been severely impacted by the COVID-19 pandemic, but has seen a significant recovery since the South African government eased restrictions and reopened the economy. Air Travel demand recovery at Upington currently sits at 52% of pre-COVID levels.

AIR TRAVEL SUPPLY

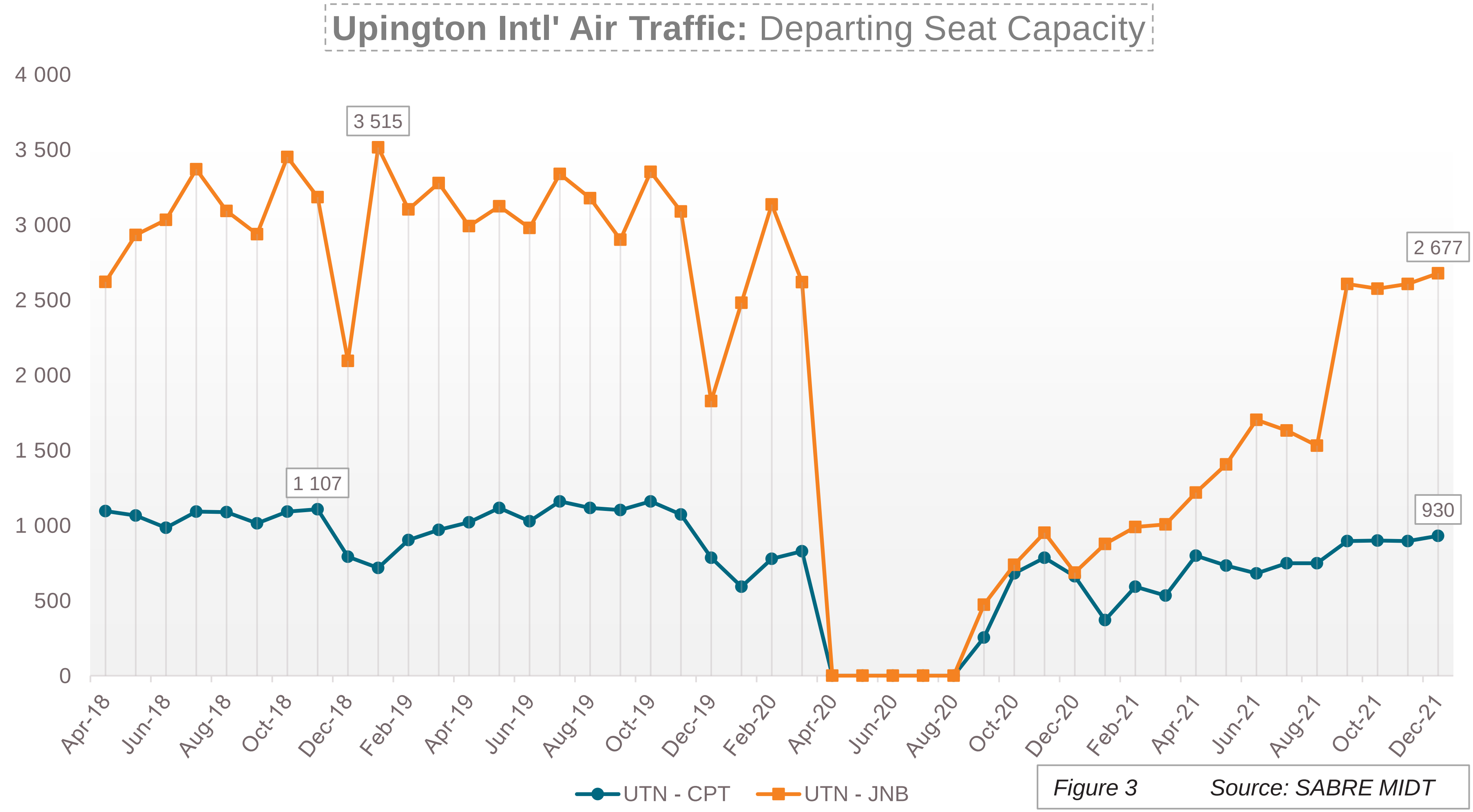

Figure 3 *Source: SABRE MIDT*

- The contraction of Air Travel demand due to government imposed restrictions resulted in airlines cutting capacity. Currently, 53% of the pre-COVID capacity has been restored, with aggressive capacity increases on the Johannesburg – Upington route planned from September onwards.

LOAD FACTOR VS AVERAGE FARES: JNB

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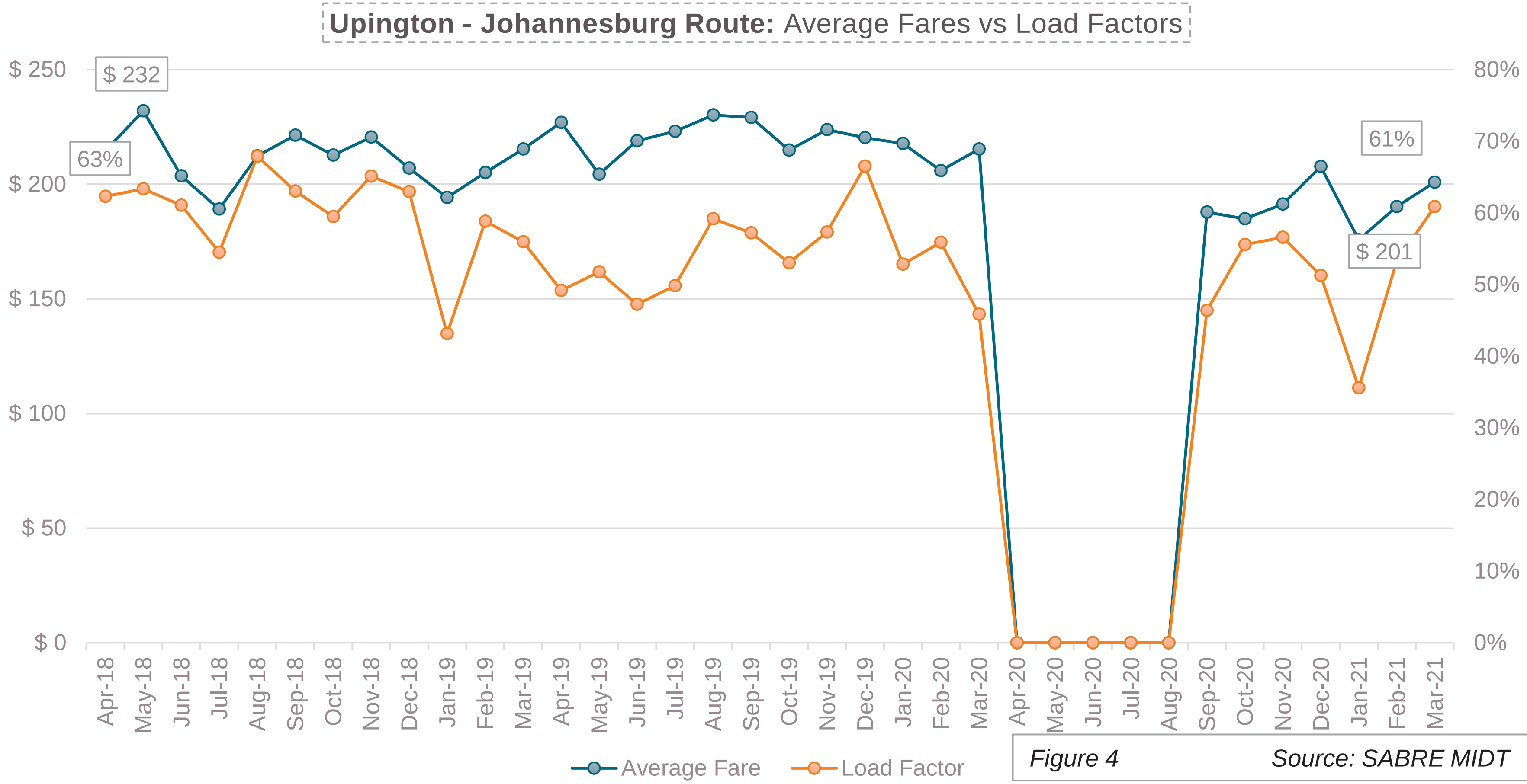


Figure 4 *Source: SABRE MIDT*

- Load factors on the Johannesburg – Upington route in March 21 were 5pp better than the pre-COVID levels. Despite the subdued demand, airlines have restored limited capacity to match the current demand levels.
- With Upington being largely a corporate market, the cost of air travel is amongst the highest of any domestic market in SA. As a result, yields have declined by only 7% from the pre-COVID levels.

LOAD FACTOR VS AVERAGE FARES: CPT

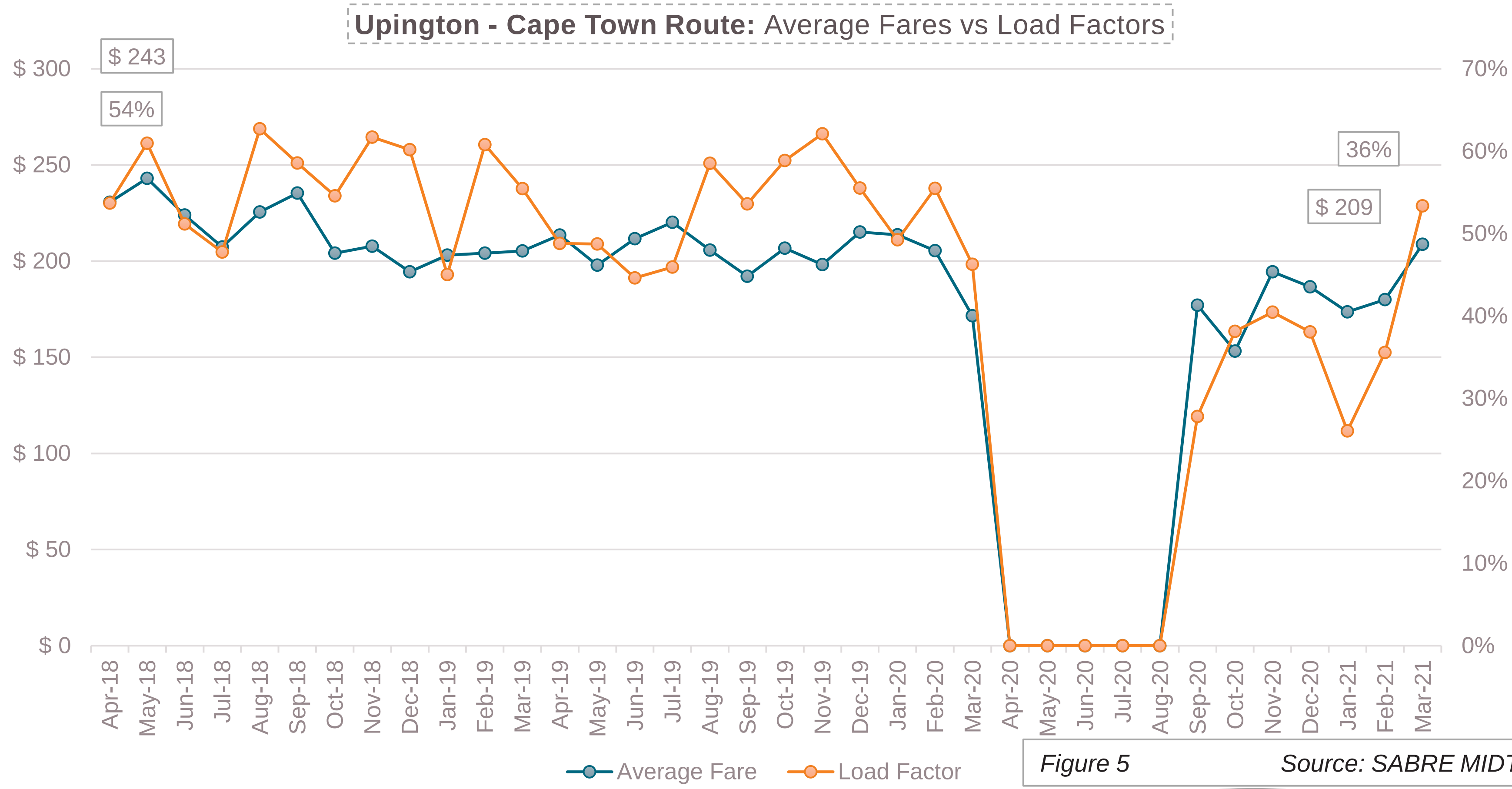


Figure 5 *Source: SABRE MIDT*

- The Upington – Cape Town route has seen a 2% increase in pre-COVID level yields in March 21, whilst load factors for the same period have reduced by 2pp from pre-COVID levels.
- The incumbent airline on the UTN - CPT route has consistently shrunk capacity to maintain the higher yields in the market due to a lack of competition. This makes both Cape Town and Johannesburg routes low **hanging fruits**, with great potential to stimulate traffic.

AVERAGE FARE COMPARISON

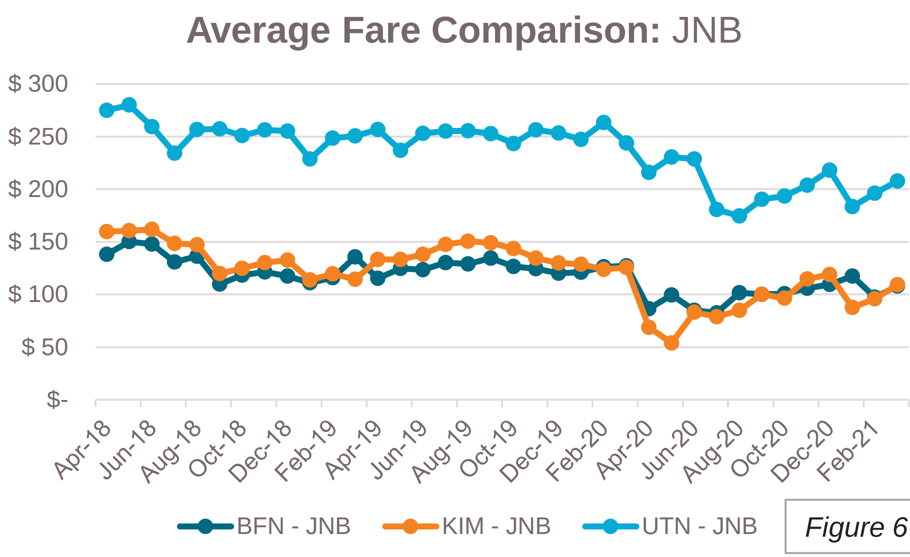


Figure 6

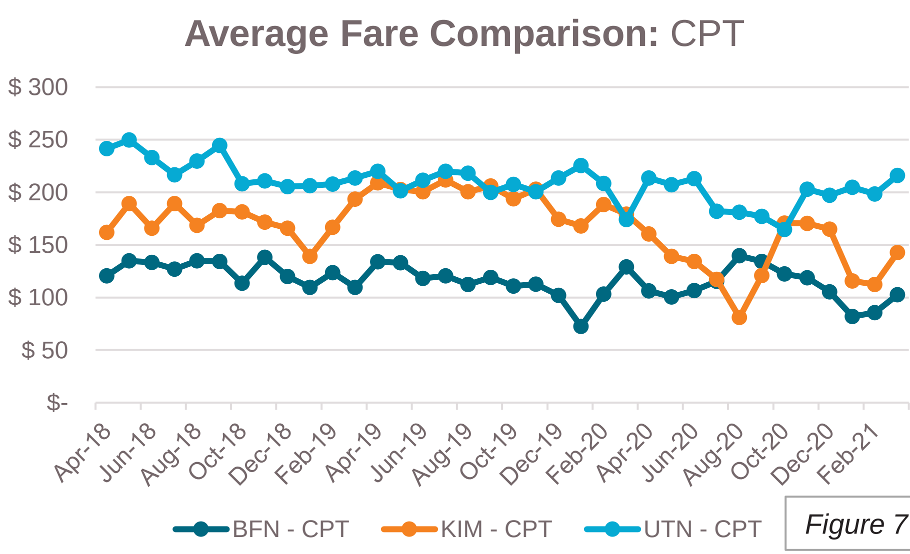


Figure 7

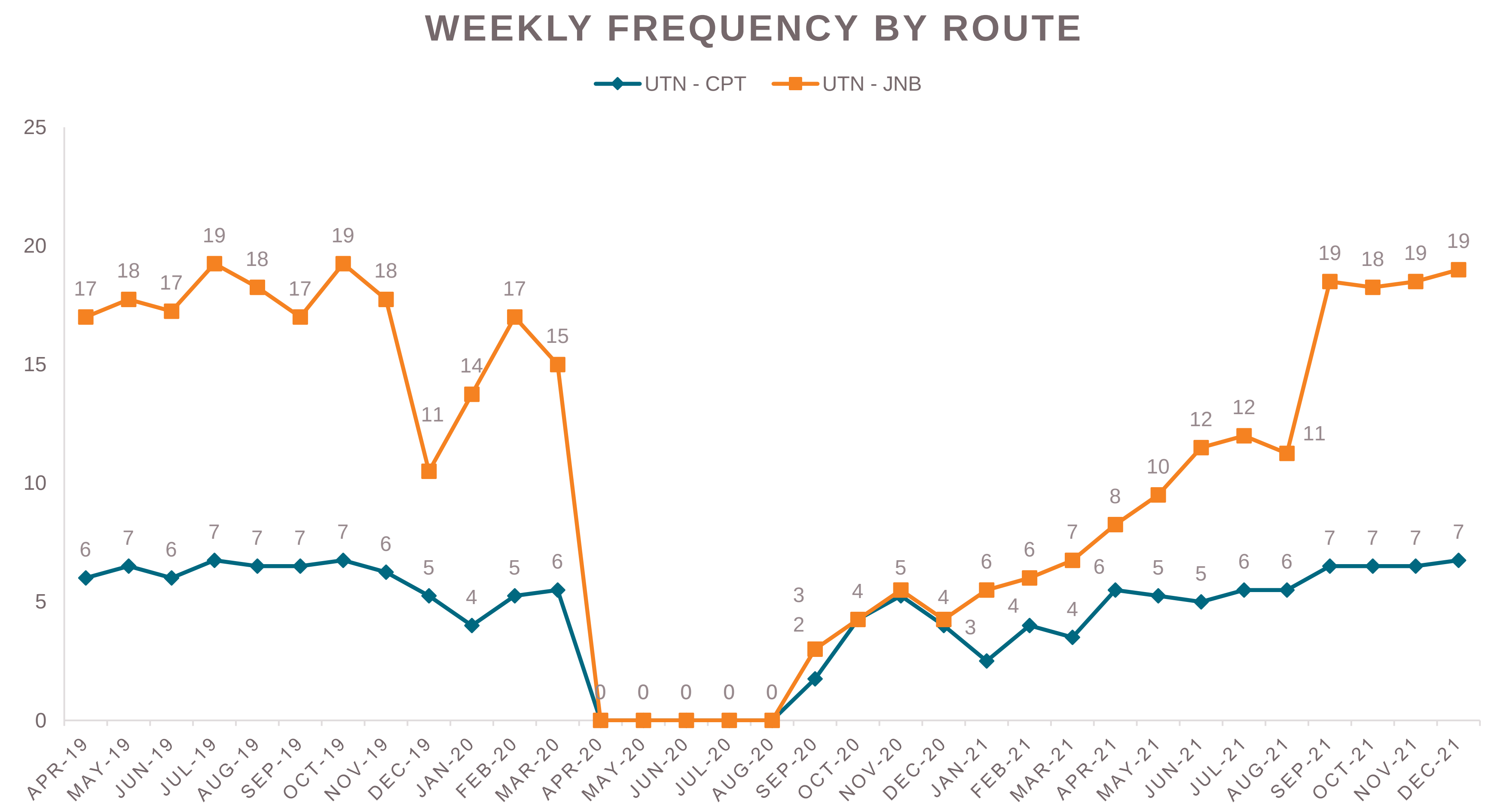
Figures 6 and 7 outline the average fares from April 2018 to March 2021 for the Johannesburg and Cape Town routes to Bloemfontein, Kimberley and Upington. The JNB – UTN average fares are 90% higher than the JNB – BFN & JNB – KIM fares.

Additionally, ***Figure 6*** shows a positive correlation in average fares between the three markets. One reason is the proximity of the three airports leading to converging catchment areas were Upington passengers would use either Bloemfontein or Kimberley to get to Johannesburg depending on which routes have considerably cheaper fares.

At the current average fares, the break-even load factors are estimated to be lower than 41% for a <50 seater aircraft on both Upington routes (JNB & CPT). The higher fares and relatively low competition on the Upington routes make the barriers of entry very low.

Source: SABRE MIDT

WEEKLY FREQUENCIES



- According to the SABRE published Schedules, all the pre-COVID capacity into Upington will be restored by September 2021.

IMPACT OF LOWER COST CARRIERS: ACSA CASE STUDY

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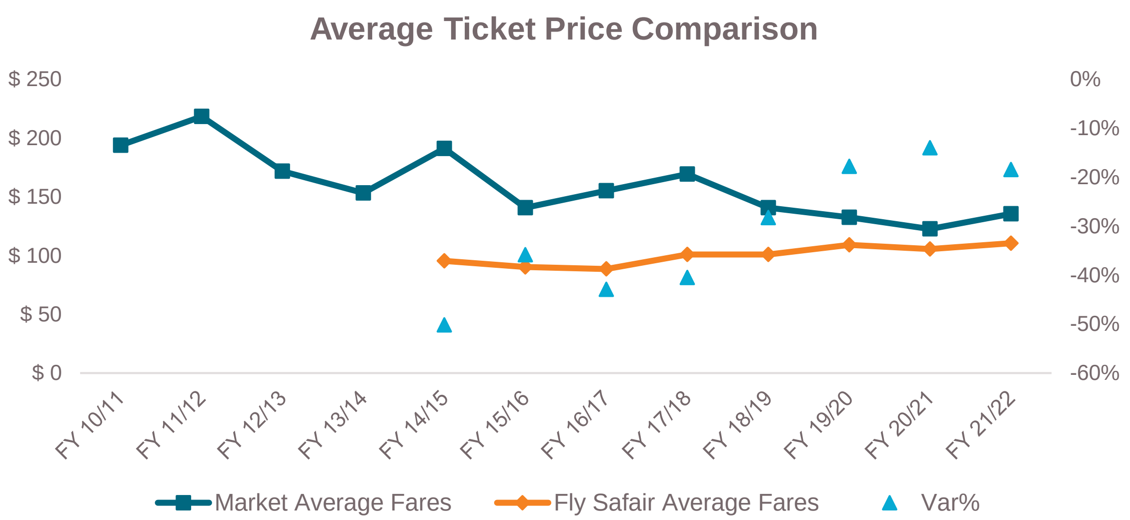

The LCC model was developed in the U.S airline industry by Pacific Southwest Airline (PSA) in 1970 and was implemented for the first time by the American domestic carrier Southwest Airlines, with the purpose of offering lower airfares to the air travellers in 1971 (Diaconu & Popescu, 2011).

South Africa saw Comair introduce the LCC model in 2001, by launching Kulula. This was followed by many other airlines adopting the LCC model such as Mango, 1Time, Fly Velvet etc., but the launch of Fly Safair revolutionised the South African aviation market.

East London is a classic example, where the market shrunk at a CAGR of 2% from 2010/11 to 2014/15. The introduction of Fly Safair to the East London airport resulted in the GAGR growing to 8% between 2015/16 to 2018/19.

Fly Safair went into the East London market charging 50% less the average market ticket prices. This led to an accelerate growth in passengers.

The lack of competition has however led to the gap between LCC, regional and full service carriers reducing.

MARKET POTENTIAL

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Market potential:

To estimate the true potential of the JNB & CPT – UTN markets, the following need to be considered:

1. The traffic between JNB/CPT and UTN travelling by bus.
2. The traffic from UTN travelling through Bloemfontein and Kimberley to get to Johannesburg due to the pricing and the proximity of the three airports (Upington, Bloemfontein and Kimberly) which has led to converged catchment areas and stimulation of traffic due to additional capacity.
3. Self-driving traffic between JNB/CPT and UTN.
4. The stimulation of traffic resulting from additional capacity employed in the market (estimates show that **a 1% increase in** seat capacity would yield a **0.6% increase** in passengers traffic).

Upington being predominantly a **corporate market** guarantees a consistent flow of traffic through the year. The **creation of a solar corridor as a Special Economic Zone** in Upington and the continued inward flow of Foreign Direct Investment into Upington will 1. Grow the business traffic in and out of Upington 2. Drive inward migration of high skilled labour through job creation, which will as a result grow the Leisure and VFR traffic in the Upington region. Limited competition and high average fares make Upington a **potential growth market**.

AREAS OF FOCUS

LONG TERM AIRLIFT PLAN

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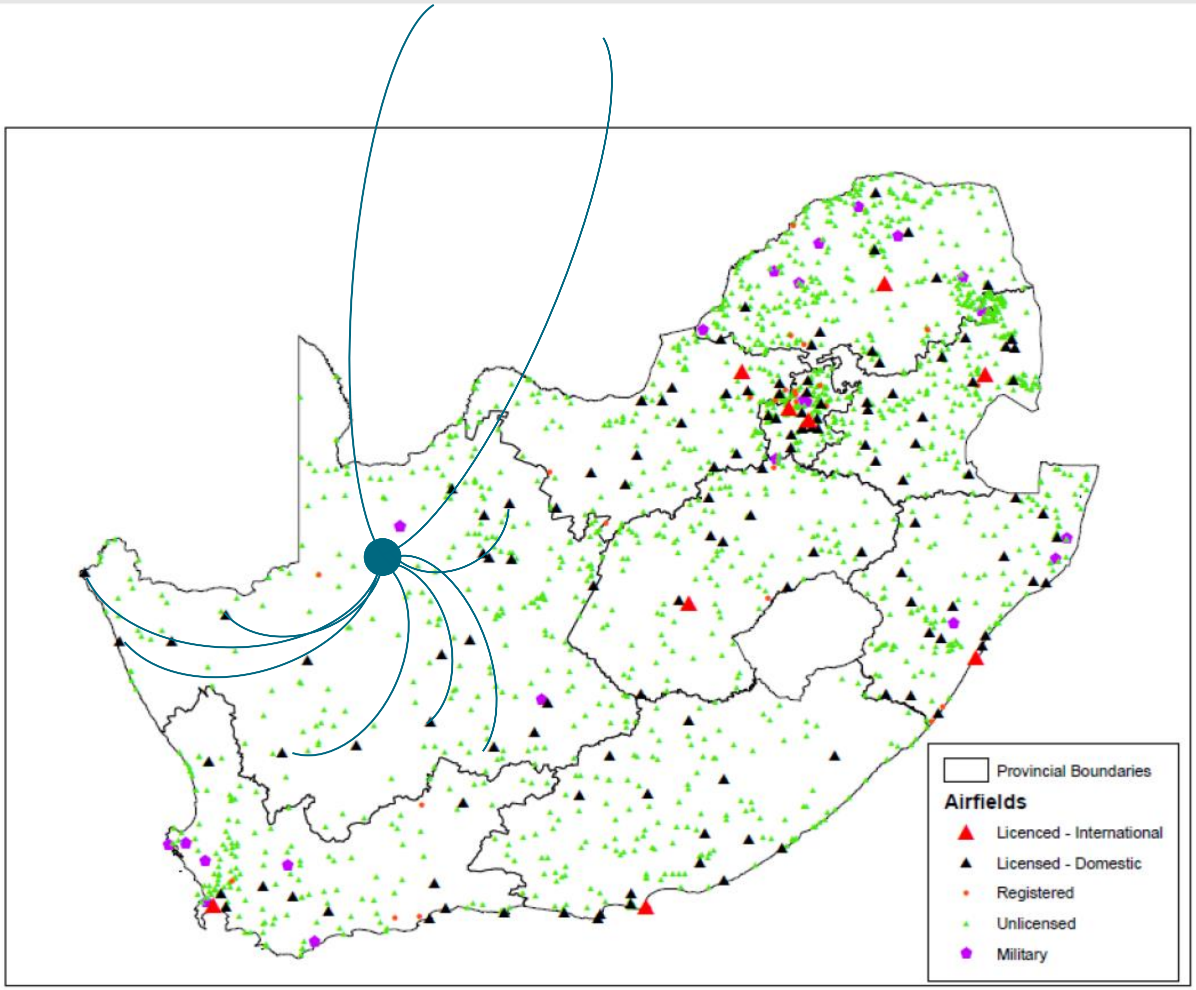

Developing air connectivity for a small international airport typically follows several key phases, each critical to building sustainable routes and expanding reach. Phase 1: Market Assessment and Planning involves researching potential markets, analysing passenger demand, and identifying key international destinations. In this phase, the airport collaborates with tourism boards and local businesses to develop a business case for new routes. Phase 2: Airline Engagement and Negotiation focuses on attracting airlines through route development incentives, partnerships, and ensuring favourable operational conditions. This phase may include offering reduced landing fees or marketing support to promote the new routes. Phase 3: Infrastructure and Capacity Building prepares the airport for increased international traffic by upgrading facilities, expanding customs and immigration capabilities, and ensuring compliance with international aviation standards

Phase 4: Launch and Marketing includes the official launch of new routes, accompanied by strategic marketing campaigns targeting both business and leisure travellers. Phase 5: Route Performance Monitoring and Expansion ensures ongoing assessment of route success, passenger load factors, and demand trends, with a focus on optimizing flight schedules and expanding to additional destinations as connectivity grows. Each phase is essential in positioning the small airport as a competitive player in international travel.

AIRLIFT AREAS OF FOCUS

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Extending Business Stays

- **Promoting "bleisure" travel:** Destinations can encourage business travellers to extend their stay for leisure by offering packages that combine business accommodations with leisure activities. Marketing campaigns can highlight nearby tourist attractions, cultural experiences, and relaxation opportunities to entice business travellers to enjoy a vacation after their work commitments.

2. Hosting Conferences and Events

- **Attracting international conferences and trade shows:** Destinations can position themselves as key venues for global conferences, trade shows, and business events. By doing so, they not only attract large numbers of business travellers but also increase visibility and interest in the destination, turning business visitors into potential leisure tourists.
- **Promoting post-event tourism:** Business events can be paired with tailored tourist experiences for attendees, offering sightseeing tours or adventure activities once the professional engagements are over.

3. Targeting Corporate Travel Incentive Programs

- **Corporate incentive travel:** Many companies reward employees with travel experiences. Destinations can partner with corporations to offer attractive incentive travel packages, highlighting unique experiences for both work and leisure purposes, thus drawing more visitors who may return for personal tourism.

AIRLIFT AREAS OF FOCUS

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4. Cross-promoting Business and Leisure Travel

- **Collaborating with airlines and hotels:** Destination marketing organizations can partner with airlines and hotel chains to bundle corporate travel with tourist experiences. Offering business travellers, a seamless package that includes leisure activities, such as city tours or access to local attractions, can encourage them to explore the destination further.

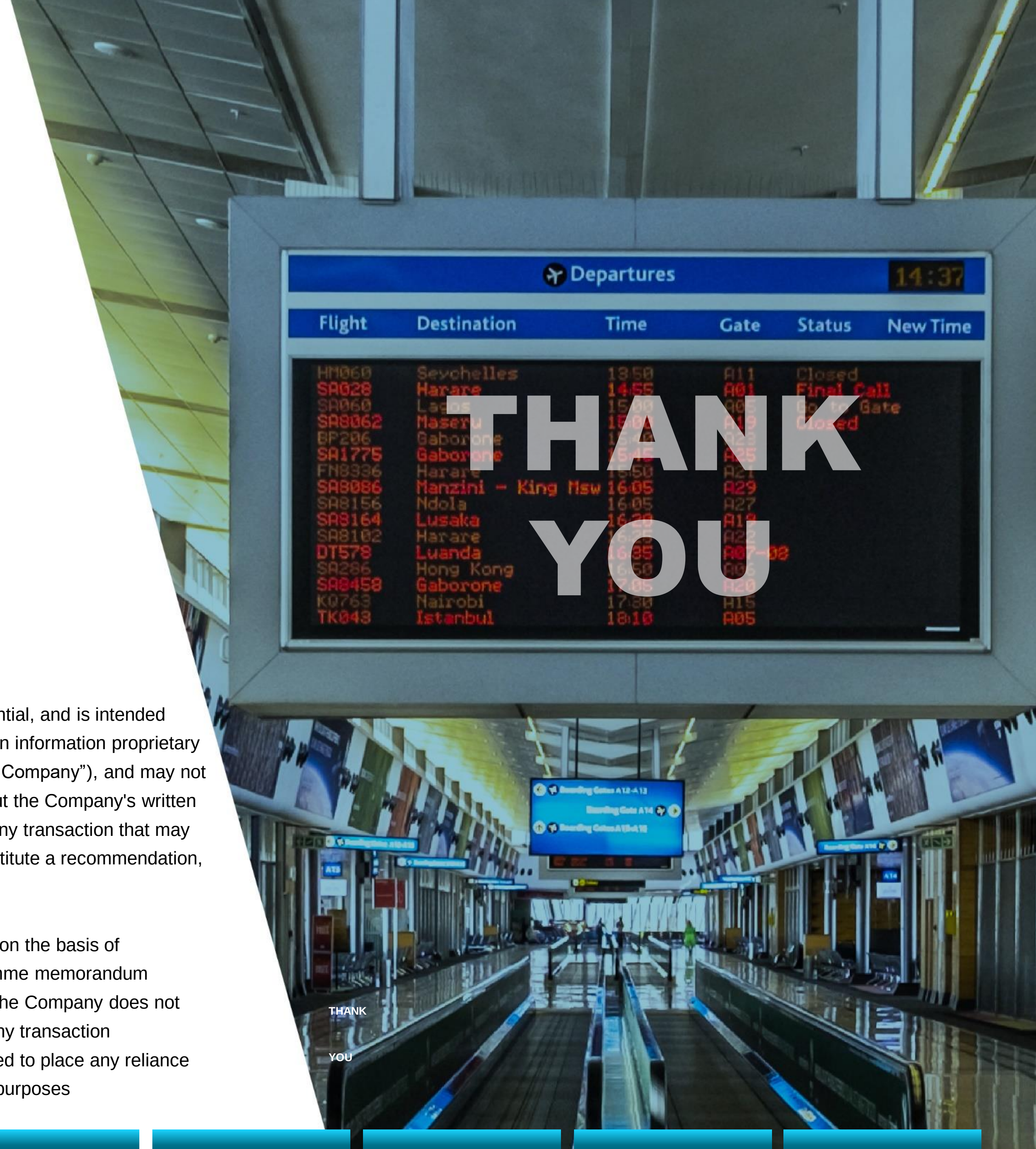
5. Enhancing Infrastructure for Business and Leisure

- **Developing mixed-use infrastructure:** By investing in infrastructure that caters to both business and leisure, such as convention centres near cultural districts or hotels with integrated tourism services, destinations can enhance their appeal to both business travellers and tourists. This makes it easy for business visitors to explore leisure options without the need for additional planning.

Improving transport and accessibility: Efficient transport between business centres and tourist attractions can encourage business travellers to explore local sites more easily during downtime.

6. Creating Business-Tourism Marketing Campaigns

- **Targeting business travellers as future tourists:** Marketing campaigns can be tailored to business travellers, showcasing the destination's tourism offerings with a focus on what they can experience during or after their business trips. Highlighting unique local experiences, natural wonders, or cultural attractions can encourage business travellers to return with their families or for personal leisure.



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