



SUSAN MCDERMOTT
Deputy Assistant Secretary
Aviation and International Affairs
U.S. Department of Transportation

Remarks Before
The Sullivan Summit VIII
Arusha, Tanzania
2-6 June 2008

The Department greatly appreciates the opportunity to address this forum. The Sullivan Foundation is to be applauded for its consistent and successful work in encouraging greater U.S. investment in Africa. It is to be equally applauded for devoting much of this particular conference to the infrastructure upon which sound investment is founded. “Infrastructure.” Doesn’t usually grab a lot attention, sounds so utilitarian, so basic – not like “would you like to invest in a five star hotel on a gorgeous beach in Mozambique or Zanzibar?”

But I can categorically say that without paying close attention to infrastructure, investment potential is substantially diminished if not eliminated. I’d like to get down to some basics regarding one form of infrastructure particularly tied to the development of tourism: aviation. After all, aviation is the beginning and the end of the tourist experience for a vast number of travelers and especially to Africa; not one of us would be here today but for aviation.

First a note on the tourism industry. It has now become the world’s single largest industry. According to the World Tourism Organization (WTO), in 2006 world receipts for tourism exceeded \$700 billion. Africa’s share was some \$24 billion. Africa was called the star performer for growth in tourism numbers, up some 10% over 2005 levels. A majority of tourists to Africa

come by air. And air tourists spend more than visitors arriving by other modes; spending that sparks all form of economic development that creates a rich pool of jobs.

Countries are in hot, competitive pursuit of the tourist dollar and finding emerging tourist destinations, especially in developing countries, has become big business. Destinations that were previously bypassed are becoming growth spots and some hot spots. Viet Nam, Costa Rica, Chile. Key African countries are certainly well-known players (we are in one right now) and others are on the radar screen, but what does it take to put them solidly on the map?

The high profile fundamentals are in place. Africa's great mountains, deserts, beaches and otherwise unmatched geography, the kaleidoscope of its cultures and historical attractions, and the wholly unique wildlife preserves, make Africa a tourist dream.

But unlike the tourists, tourism service providers have to do more than dream. Tourism not only requires economic investment, it is an intense interaction between people and requires a broad range of services and facilities. The first service needed is obviously getting people to and from their destination: air transportation begins the journey, not only for the tourist but also for those interested in developing a tourism industry.

Safe, secure and competitive air transportation is fundamental to developing foreign tourism. The air transport portion of the cost of a vacation package is substantial. If a tourist package is to be competitive with hundreds, if not thousands, of other attractive destinations around the world, promoters must seek maximum efficiency in the cost of flying. The ability, however, to negotiate service and fares, indeed the ability to maximize air transportation's contribution to tourism development, involves important public policy and regulatory decisions. First, governments must create liberalized economic environments for air carriers to compete to encourage the most competitively priced and consumer-responsive service; second, governments must assure, through rigorously applying the highest international standards, that air travel is safe and secure.

Overall, Africa does not have good air transport connectivity, either inside or outside the Continent. Services between African countries remain restricted by governments, notwithstanding the African Union declaration that all

African nations were to open their markets to African carriers. In addition, restrictions on markets between African countries and other nations of the world limit access to global markets and do not strongly support robust development of an international trade base. Air fares remain high and service options limited. Because air transportation is often the only practical mode of transportation, the result has hindered African integration and economic development. But this is changing in important ways and continuation of this change should be strongly encouraged.

Where markets are opening to greater competition, the benefits of lower fares, expanded service options and increases in traffic are stimulating the economies of nations that have the foresight to step forward.

Let me share a few examples from a recent study in the Southern African markets:

- The Nairobi-Johannesburg route was fully liberalized in 2003. Passengers increased 69 percent after liberalization.
- South Africa deregulated its domestic industry in 2000 and several low fare carriers were established to provide service inside South Africa. Passenger ridership exploded and grew some 80%.
- What is doubly telling about the South Africa example is that data showing passenger growth in just one segment of the South African market revealed an increase in tourists to the Eastern Cape region by nearly 13%.
- Similarly, from the time that Zambian Airways went out of business, South African was the only airline serving the Johannesburg-Lusaka route, with notably high fares. A reconstituted Zambian Airlines partnered with one of the new low cost carriers from South Africa and entered the route in 2006. Fares dropped between 33% and 38% and passengers grew by 38%. On an annualized basis, this was translated into 6,300 more passenger arrivals in Zambia and additional income of nearly \$9M.
- In contrast, the entry and pricing constrained market between Johannesburg and Maputo, Mozambique shows fares at over 160% higher than fares for the same distance between Johannesburg and Darwin. The tourist potential of Mozambique is tremendous and development is on. But the air fare situation can only have a negative impact on holiday shoppers as they review less expensive packages in South Africa.

For the purposes of developing tourism, competitive air transportation will maximize the ability to keep the air fare component of a tour package at the lowest possible level for the highest level of service, both to the Continent and within the Continent for purposes of multiple point itineraries. Better intra-African services open possibilities for greater travel by Africans on their own Continent, and spreads the benefits of development to more communities of potential tourist interest. And those benefits translate into jobs – jobs – jobs for African citizens.

The fundamentals of competitive air transportation are poised to fall into place. Markets in Africa are opening, both internally and externally. U.S. has 19 open-skies agreements with African nations. And the African Union endorsed Yamoussoukro decision can lead to a Continent-wide open market for African carriers. This same dynamic of both internal and external liberalization is seen all over the world. Countries that formerly held to government management of competition are opening their markets (e.g., India, China, Thailand). In some cases, tourism and business leaders work with development enterprises and airlines; in others, market-based air transportation agreements wait as sharp, ready tools in preparation for other growth and investment elements to fall into place. In all cases, the simple advent of better air services stimulates interest by development entities. An open aviation market is viewed by both the investment and aviation communities as a billboard that a country is open for business.

But there are ground rules that must be established before air services can do their job of connecting African nations to one another and to the rest of the world. The granddaddy of all fundamental air transportation needs is safety.

Safety and security are not just developing nation issues. Aviation is a complex, technical industry that requires constant oversight to assure that standards are in place and procedures are followed in order to minimize the likelihood of a safety or security incident. One word sums it up: confidence. Travelers should not have to think twice about air travel safety – and if they do, you can imagine how they will evaluate the choices they may have in front of them. If governments are to encourage the use of air transport for economic development, they have a solemn duty to assure the highest possible standards for the safety and security of those conveyances. Virtually every nation in the world, from the smallest to the largest, must be audited by a UN body to determine that the proper internationally-agreed

standards are being implemented. To fly to the United States, governments must similarly satisfy an FAA safety review based on those same standards.

Today, only three countries in sub Sahara Africa have received the FAA go-ahead.

You flew to this conference on an airline from one of those countries.

Africa does not have a good reputation for aviation safety. I won't dwell on the particulars, but I will dwell on the fact that it does not have to be that way. Aviation safety has always been a collective goal. There are many partners willing to assist and share expertise needed to establish the necessary standards. The U.S. has partnered with many African nations under the Safe Skies for Africa program. For example, here in East Africa, we are working with the East African Community to strengthen the capabilities of the member states to meet the international standards. We are working with Ghana, Nigeria and others in a similar vein.

Let me close with an example that makes the case that aviation safety and security along with liberalization of operating rights are catalysts for economic development. Cape Verde. An alumna of the Safe Skies program, it rapidly improved its aviation safety and airport infrastructure. Within 18 months, it established a solid aviation authority, passed safety audits with high marks and its airline commenced service to the U.S. From a single international airport, two more were added on different islands and a third planned. Where little existed before, tourism has become a mainstay of Cape Verde's economic activity and is projected to grow from its current base of 150,000 to 500,000 by 2010. The country is recognized as one of the strongest African proponents of aviation safety and security and indeed assists other countries in the region. It gets better loan rates, better insurance rates and uses its strong safety position as a selling point, and very effectively.

This is my second trip to the Continent in as many months. The Department of Transportation hosted a conference on transportation infrastructure in Cape Town in April. The conference, the first to open discussions with our African government counterparts on how improvements in all modes of transportation infrastructure could increase trade under the AGOA legislation, or any trade for that matter, endorsed the essential proposition that transportation infrastructure is the foundation for economic

development and trade. That message certainly holds for the development of tourism.

My message is to urge all to address the basics by assuring the safety and security of air flight and by opening markets. Develop the potential of this glorious Continent on a platform that allows visitors from all over the world to not only enjoy Africa's splendors but also to create greater well-being for its people when doing so.