

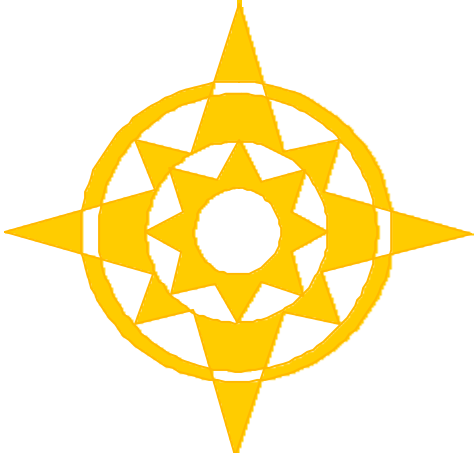
Horwath Tourism & Leisure Consulting
Member of Horwath International



Fedhasa

Tour Operator Rates and Packages Analyses

April 2001





Executive Summary

General

The Federated Hospitality Association of South Africa (Fedhasa), on behalf of the South African hotel industry, required an analysis of hotel rates in South Africa, geared essentially towards providing an insight into the movement of tour operator margins in recent years. In addition, Fedhasa required a limited comparative analysis of tour packages available to South Africa, compared to tour packages available to other prominent long-haul destinations for outbound travel from our 5 main European source markets.

Horwath Tourism & Leisure Consulting was commissioned to undertake the assignment.

Longitudinal Rates Analysis

In order to be able to gain an understanding of the relationship between room rates achieved by South African hotels and the rates achieved by tour operators for those same hotels, the two variables were compared across a sample of 15 South African hotels and 10 tour operators for the same season (December to March) over a 3-year period.

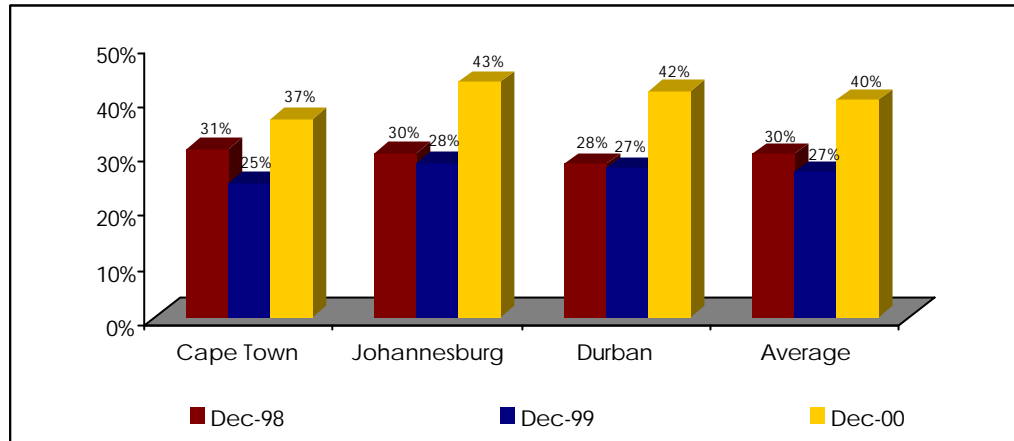
The analysis drew on the rates for 5 hotels in each of 3 metropolitan areas in South Africa: Cape Town, Durban, and Johannesburg. The comparison was made for South Africa's 5 main European source markets (2 tour operators per source market).

The rates quoted by tour operators in their own home currencies were converted to Rands for the relevant period, in order to provide a common currency across the source markets for the comparison.

Figure 1 below shows the average margins for the cities included in our analysis for December 1998, December 1999 and December 2000.

The average margin placed on the rates of all 15 hotels included in the analysis dropped from 30% in December 1998, to 27% in December 1999 and then rose significantly to 40% in December 2000. This decrease in the margin for December 1999 can be attributed to the tour operators not increasing their rates in line with the increase in hotel actual achieved rates for the Millennium season in Cape Town.

Figure 1: Average Margins by City – December 1998 to December 2000



Source: Horwath Tourism & Leisure Consulting

However, the dramatic increase in the average margin in December 2000 is a reversal of the pattern for December 1999. In this instance, tour operators increased their rates for the hotels far above the hotels' own increases in actual achieved rates.

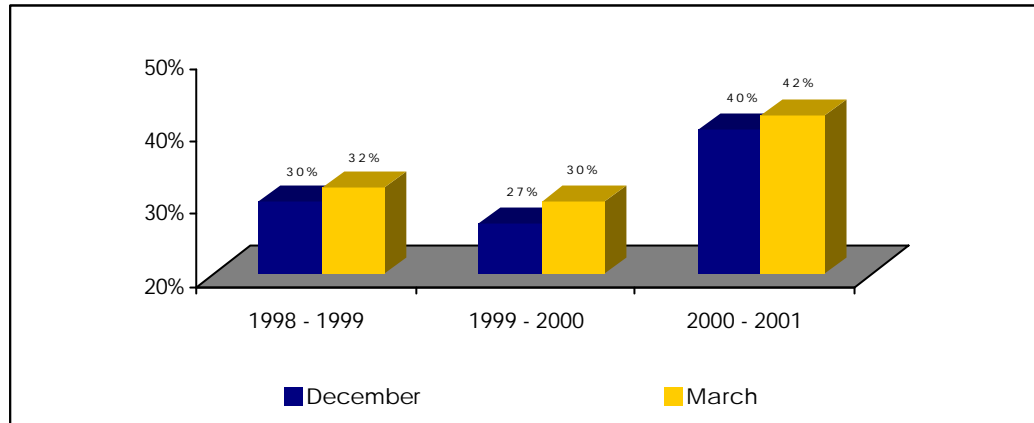
Of the three cities, the margins achieved by the tour operators on the rates of hotels in Cape Town were more moderate in December 1999 and December 2000 than the national average, while in December 1998 Cape Town's margin was in line with the national average. The highest average margin was placed on the rates of Johannesburg and Durban, across the 3 cities for all 3 seasons, at 43% and 42% respectively in December 2000.

Effects of Rand Devaluation

Figure 2, over the page, displays the margin achieved at the end of March for each of the three seasons in relation to the December margin for the same season.

There was a 7% increase in the tour operator margin between December 1998 and March 1999; this can be directly attributed to the devaluation of the Rand. The increase during December 1999 to March 2000 was 11%, which can also wholly be attributed to the Rand devaluation. During the December 2000 to March 2001 season, however, the increased margin was only 5%.

Figure 2: Margins for all Hotels Including the Impact Rand Devaluation



Source: Horwath Tourism & Leisure Consulting

The reduced Rand devaluation effect on the margin for the most recent season is largely due to the fact that some of the hotels included in the survey changed the rates structure made available to tour operators from a single rate for December to March to two rate periods: 1 Dec 2000 to 31 Jan 2001 and 1 February 2001 to 31 March 2001. The rate increase for the period 1 February 2001 to 31 March 2001 negated some of the impact of the weakening Rand.

Comparative Destinations Analysis

In order to gain some insight into South Africa’s competitiveness in terms of tour package pricing, a limited comparative analysis of tour packages available to South Africa and other long-haul destinations for outbound travel from our 5 main European source markets was undertaken. The destinations against which to compare South Africa were chosen based on their possession of similar characteristics as long-haul destinations, and the levels of historic demand for these destinations from the European source markets.

Major outbound tour operators that offer group tours to South Africa and its comparative destinations were utilised for this analysis. Although it was not possible to identify identical tours offered to competitive destinations, the closest and most appropriate tour packages were chosen for the comparison.

South Africa’s inability to compete with Thailand, in terms of tour package price, for the 5 European source markets was apparent from our research. South

Africa's inability to compete against other Asian destinations such as Indonesia, Singapore and Hong Kong was also evident, but to a lesser degree.

The Dominican Republic and Senegal are cheaper package holiday destinations than South Africa for the relevant long-haul markets. This is partially due to the package holidays to these markets consisting in part of stay-puts at beach hotels.

In the case of the packages offered to India by the United Kingdom tour operators surveyed, South Africa was competitive in terms of pricing. When compared to Mauritius for the French market, South Africa was also within the same price range. Brazil appeared to be marginally cheaper than South Africa for the packages compared, but this may be attributed to the fact that the Brazilian packages used in the comparison were typically shorter in duration than the South African packages.

South African package holidays had a competitive edge over Australian tour group packages in terms of pricing, for the sample compared in the analysis.

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1. GENERAL

The Federated Hospitality Association of South Africa (Fedhasa), on behalf of the South African hotel industry, required an analysis of hotel rates in South Africa, geared essentially towards providing an insight into the movement of tour operator margins in recent years. In addition, Fedhasa required a limited comparative analysis of tour packages available to South Africa, compared to tour packages available to other prominent long-haul destinations for outbound travel from our 5 main European source markets.

Horwath Tourism & Leisure Consulting was commissioned to undertake the assignment.

Although it was initially anticipated that the United States tour operator margins and packages would be included in the analysis, after attempting to obtain appropriate information from this market for some time, it became apparent that the United States tour operator market servicing South Africa is not as sophisticated as the European markets, rendering the United States tour operator information incomparable.

The methodology employed in undertaking the longitudinal and comparative analyses is given in **Addendum A**.

1.1 Definition of Terms

Actual Achieved Rate:	a hotel's accommodation revenue per room night sold, inclusive of VAT, for a given tour operator rate
Fedhasa:	Federated Hospitality Association of South Africa
Margin:	the difference between the tour operator brochure advertised rate and the hotel actual achieved rate, shown as a percentage of the hotel actual achieved rate
WTO:	World Tourism Organisation

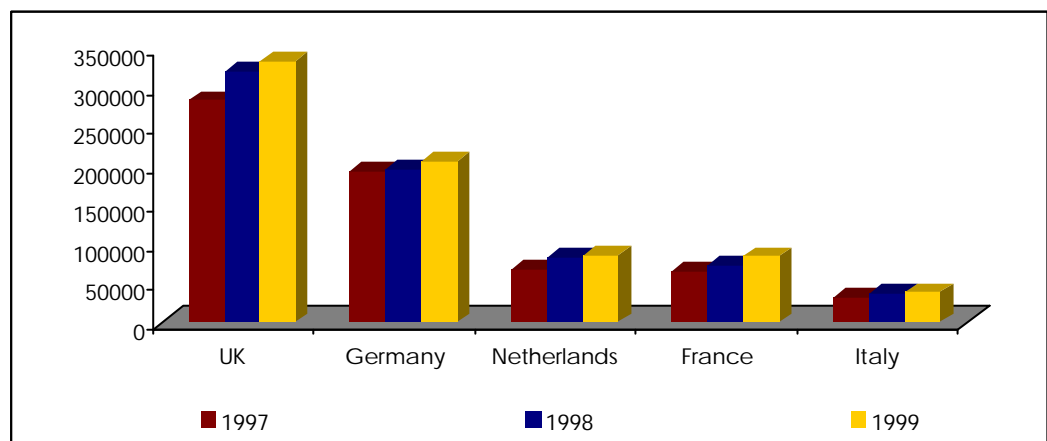
2. LONGITUDINAL RATES ANALYSIS

2.1 General

In order to be able to gain an understanding of the relationship between room rates achieved by South African hotels and the rates achieved by tour operators for those same hotels, the two variables were compared across a sample of 15 South African hotels and 10 tour operators for the same season (December to March) over a 3-year period. The comparison was made for South Africa's 5 main European source markets.

Arrivals in South Africa from each of its 5 main European source markets, considered for this analysis between 1997 and 1999 are shown in Figure 2.1.

Figure 2.1: Arrivals from Primary European Source Markets – 1997 to 1999



Source: Statistics South Africa

Tour operator rates per person sharing, as published in their brochures (in most cases these included breakfast) from 2 tour operators for each of the source markets were used in the comparison.

The rates were in turn converted to Rands at a conversion rate quoted by Olsen & Associates for the relevant period, in order to provide a common currency across the source markets for the comparison.

In order to understand the impact the weakening of the South African Rand on the margin, we compared the rates in Rands for 1 December and 31 March of each season. As the rates provided to the tour operators by hotels in Rands are fixed for the season, and the rates published by the tour operator in their

brochures (in their own respective currencies) are also fixed, any fluctuation in the exchange rate between the currencies is felt by the tour operator and the relevant hotel.

By and large, the Rand has devalued over the past three years during the course of the December to March period; this devaluation has been beneficial for the tour operators who receive their hotel cost to customer rates in the stronger European currencies. The difference between the 1 December rate and 31 March rate for the same season can be seen as a direct consequence of the devaluation of the Rand over that period.

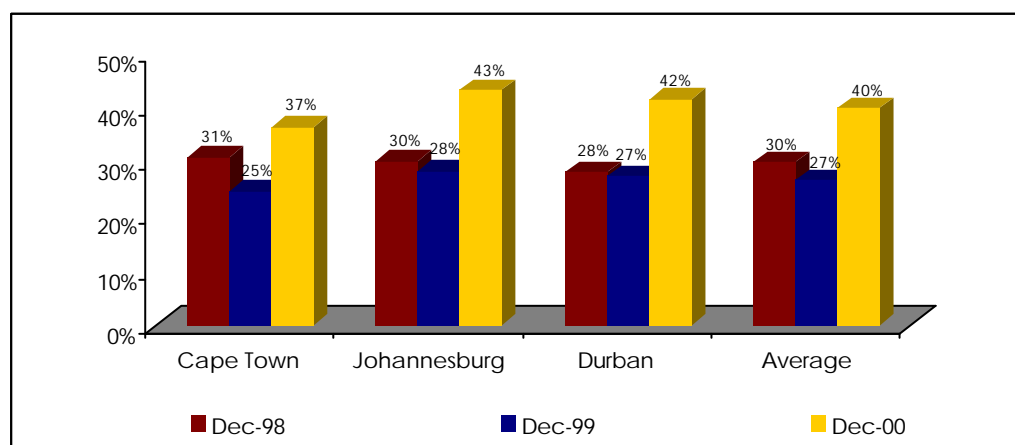
Addendum B contains the exchange rates for the South African Rand and the currency for each of the countries under consideration at relevant intervals.

2.2 Analysis by City

We compared rates for 5 hotels in each of 3 metropolitan areas in South Africa: Cape Town, Durban, and Johannesburg.

The results of the analysis are shown in Figure 2.2, in aggregate, across a number of variables in order to protect the anonymity of the hotels.

Figure 2.2: Average Margins by City – December 1998 to December 2000



Source: Horwath Tourism & Leisure Consulting

Tour operator margins show a marked increase across all hotels in all cities for the survey sample in December 2000, compared to previous years.

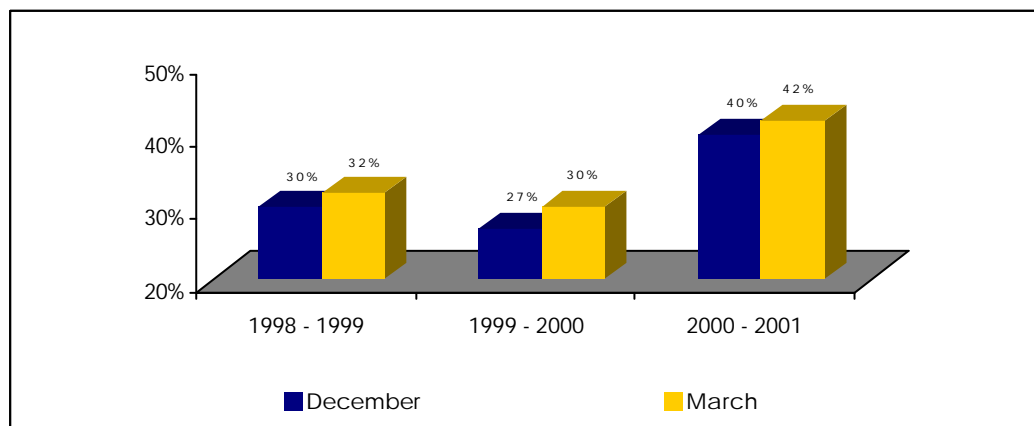
The highest average margins in December 1999 and December 2000 were placed on the rates of Johannesburg hotels; though the difference with the Durban hotels surveyed is small. In December 1998 the margins on Cape Town hotel rates were highest, but only slightly higher than for Johannesburg and Durban.

There is a slight reduction in the average margins for all hotels in December 1999, compared to December 1998. This is primarily a result of the relatively large decrease in the average margins for Cape Town. In analysing hotel actual achieved rates in Cape Town for the period, it was found that these rates increased roughly 8 percentage points more than the cost to customer rates, causing a reduction in tour operator margins. The increase in hotel rates in December 1999 was probably a result of a combination of optimism relating to consumer demand during the millennium season as well as the increased cost of labour for the period.

Effects of Rand Devaluation

Figure 2.3 displays the margin achieved at the end of March for each of the three seasons in relation to the December margin for the same season. This shows the effect of the relationship between the foreign currencies and the South African Rand. The difference between the margin for December and March for each of the seasons can be generally attributed to the weakening of the Rand.

Figure 2.3: Margins for all Hotels Including the Impact Rand Devaluation



Source: Horwath Tourism & Leisure Consulting

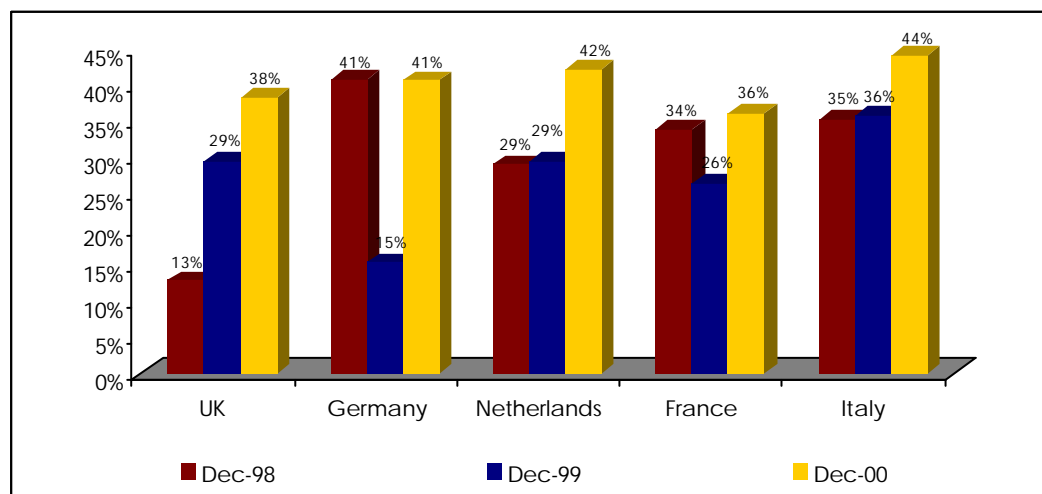
There was a 7% increase in the tour operator margin between December 1998 and March 1999; this can be directly attributed to the devaluation of the Rand. The increase during December 1999 to March 2000 was 11%, which can also wholly be attributed to the Rand devaluation compared to the relevant foreign currencies. During the December 2000 to March 2001 season, however, the increased margin was only 5%.

The reduced Rand devaluation effect on the margin for the most recent season is largely due to the fact that some of the hotels included in the survey changed the rates structure made available to tour operators from a single rate for December to March to two rate periods: 1 Dec 2000 to 31 Jan 2001 and 1 February 2001 to 31 March 2001. The rate increase for the period 1 February 2001 to 31 March 2001 negated some of the impact of the weakening Rand.

2.3 Tour Operator Margins

An analysis of the average margins achieved for tour operators for each of the top 5 European source markets is given in Figure 2.4. The reader must be cautioned that the survey is based on a sample of only 2 tour operators for each source market. Although the tour operators utilised can be considered to be large tour operators for the markets they service, the size of the sample is not adequate to reflect the trend for all tour operators from the specified source markets.

Figure 2.4: Tour Operator Margins across all South African Hotels Sampled



Source: Horwath Tourism & Leisure Consulting

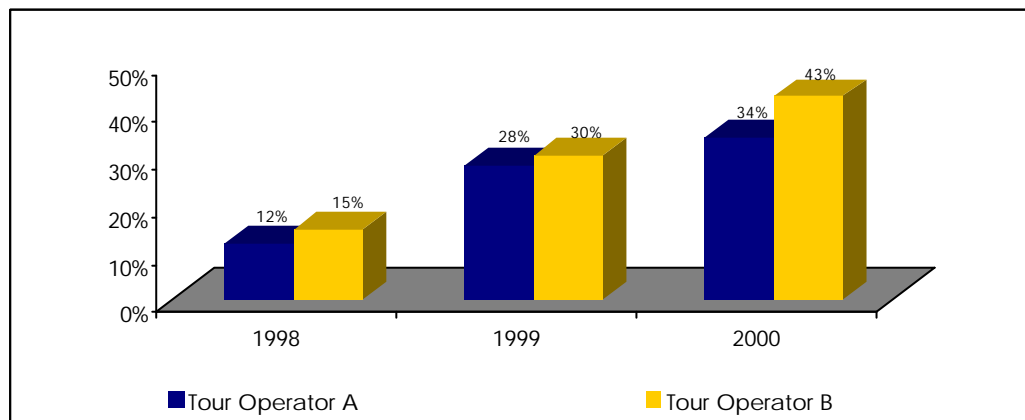
As one would expect given the previous analysis, the margins achieved by the tour operators surveyed shows a marked increase in December 2000 compared to the previous period. The Italian tour operators surveyed took the highest margins for December 1999 as well as December 2000. The German tour operators surveyed had the highest margins in December 1998.

In order to protect the anonymity of the tour operator, they have simply been referred to as Tour Operator A, B, C etc.

2.3.1 United Kingdom Tour Operators

The trend in the margins for the 2 tour operators surveyed for the United Kingdom is shown in Figure 2.5.

Figure 2.5: UK Tour Operator Margins



Source: Horwath Tourism & Leisure Consulting

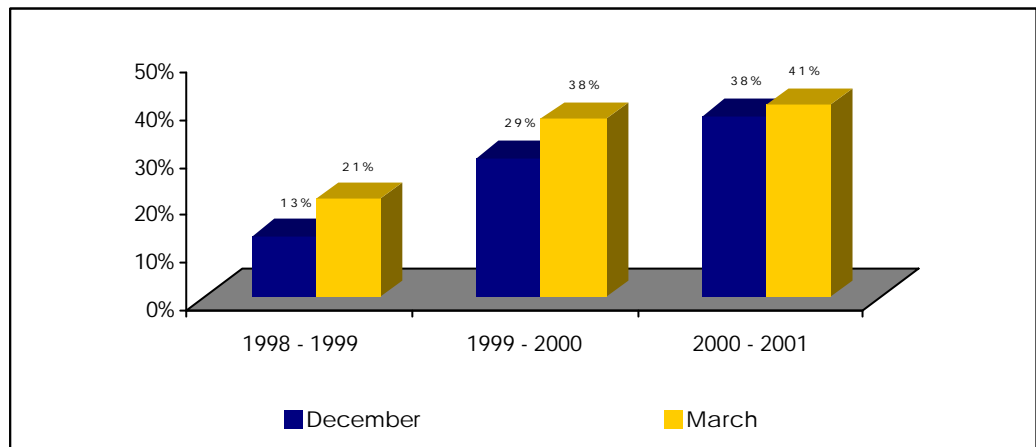
Tour operator B consistently placed higher margins on hotel rates than tour operator A. Both tour operators showed a steady growth in the margins taken on hotel rates over the 3 year period.

Effects of Rand Devaluation

The devaluation of the Rand relative to the Pound Sterling caused margins on hotel rates for the survey sample to increase by some 60% between December 1998 and March 1999, as can be seen in Figure 2.6. The devaluation caused an increase of 28% between December 1999 and March 2000.

The two rate period structure introduced by some of the hotels surveyed was able to curb the increase in margins to only 6% between December 2000 and March 2001.

Figure 2.6: Impact of the Rand Devaluation Relative to the Pound Sterling

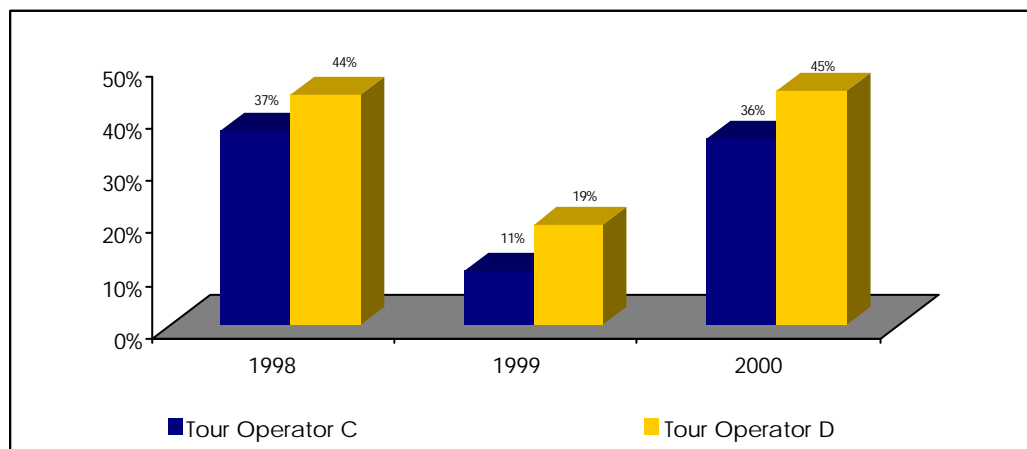


Source: Horwath Tourism & Leisure Consulting

2.3.2 German Outbound Tour Operators

The trend in the margins for the 2 tour operators surveyed for Germany is shown in Figure 2.7.

Figure 2.7: German Tour Operator Margins



Source: Horwath Tourism & Leisure Consulting

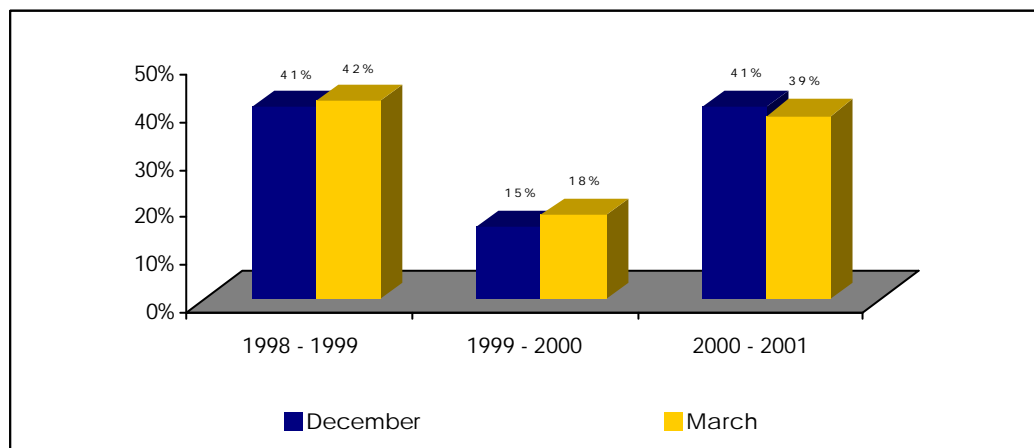
Tour operator D consistently placed higher margins on hotel rates than tour operator C. The margins taken on hotel rates showed a marked decrease in 1999. This is probably attributable to the millennium factors described in the previous section.

Effects of Rand Devaluation

The devaluation of the Rand relative to the German Mark caused margins on hotel rates for the survey sample to increase by only 3% between December 1998 and March 1999, as can be seen in Figure 2.8. The devaluation caused an increase of 16% between December 1999 and March 2000.

The two rate period structure introduced by some of the hotels surveyed caused a decrease in margins of close to 5% between December 2000 and March 2001. It must be noted that this decrease in margins caused by the two rate period structure occurred only for the German tour operators.

Figure 2.8: Impact of the Rand Devaluation Relative to the German Mark

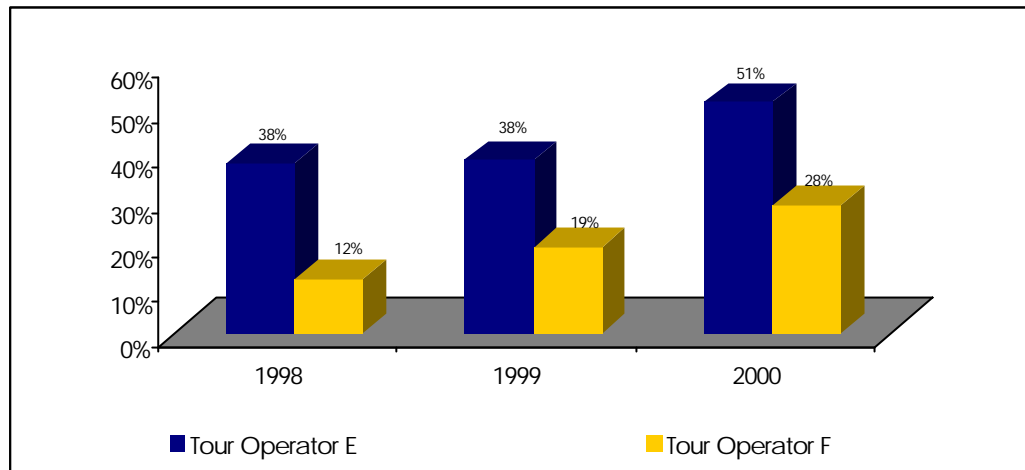


Source: Horwath Tourism & Leisure Consulting

2.3.3 Dutch Outbound Tour Operators

The trend in the margins for the 2 tour operators surveyed for the Netherlands is shown in Figure 2.9.

Figure 2.9: Dutch Tour Operator Margins



Source: Horwath Tourism & Leisure Consulting

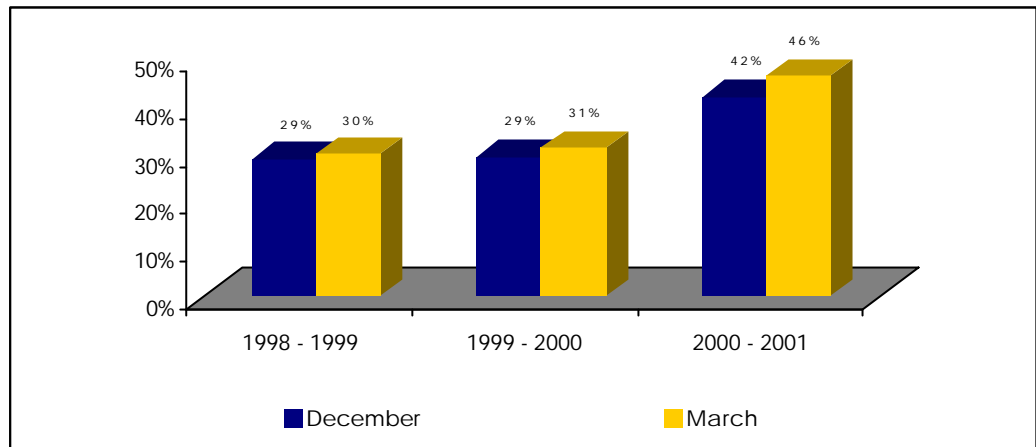
Tour operator E consistently placed higher margins on hotel rates than tour operator F. Both tour operators showed a growth in the margins taken on hotel rates.

Effects of Rand Devaluation

The devaluation of the Rand relative to the Dutch Guilder caused margins on hotel rates for the survey sample to increase by some 3% between December 1998 and March 1999, as can be seen in Figure 2.10. The devaluation caused an increase of 7% between December 1999 and March 2000, and 10% between December 2000 and March 2001.

The two rate period structure introduced by some of the hotels surveyed does not seem to have curbed the increase in margins for Dutch tour operators between December 2000 and March 2001.

Figure 2.10: Impact of the Rand Devaluation Relative to the Dutch Guilder

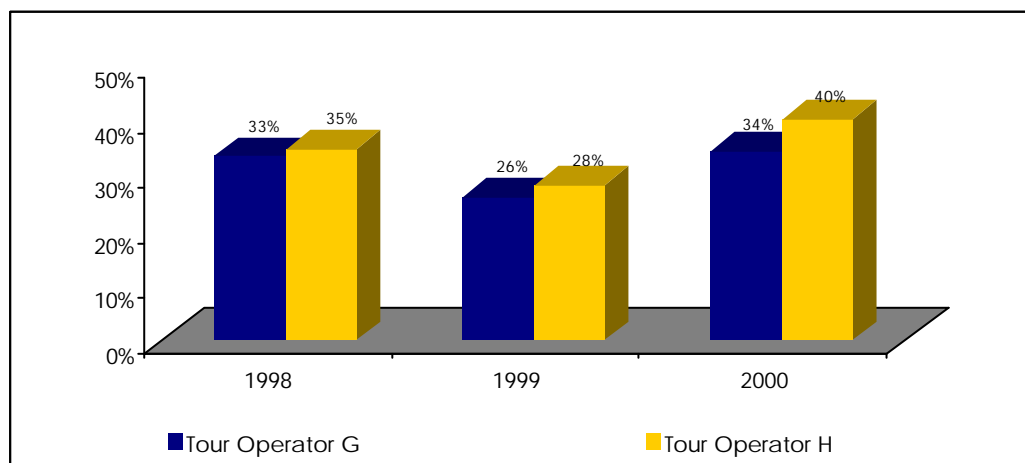


Source: Horwath Tourism & Leisure Consulting

2.3.4 French Outbound Tour Operators

The trend in the margins for the 2 tour operators surveyed for France is shown in Figure 2.11.

Figure 2.11: French Tour Operator Margins



Source: Horwath Tourism & Leisure Consulting

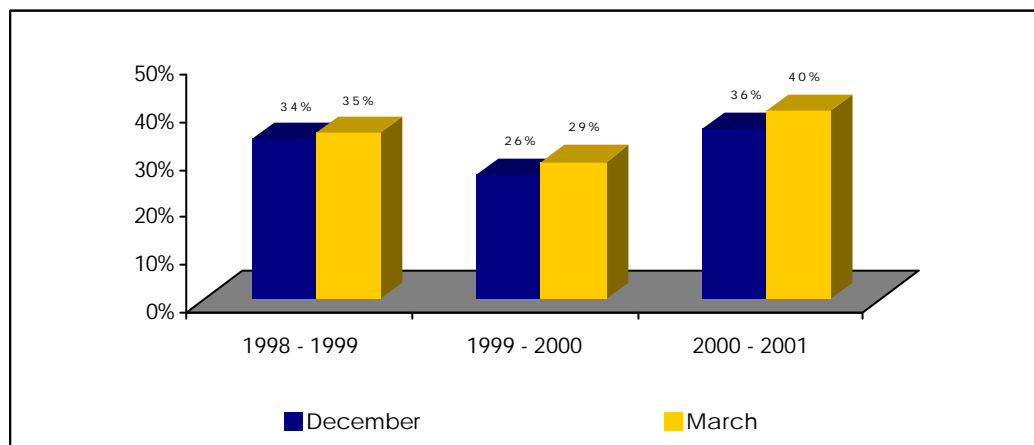
Tour operator H consistently placed higher margins on hotel rates than tour operator G. The margins taken on hotel rates showed a decrease in 1999. This is probably attributable to the millennium factors described in the previous section.

Effects of Rand Devaluation

The devaluation of the Rand relative to the French Franc caused margins on hotel rates for the survey sample to increase by some 4% between December 1998 and March 1999, as can be seen in Figure 2.12. The devaluation caused an increase of 10% between December 1999 and March 2000, and 11% between December 2000 and March 2001.

The two rate period structure introduced by some of the hotels surveyed does not seem to have curbed the increase in margins for French tour operators between December 2000 and March 2001.

Figure 2.12: Impact of the Rand Devaluation Relative to the French Franc

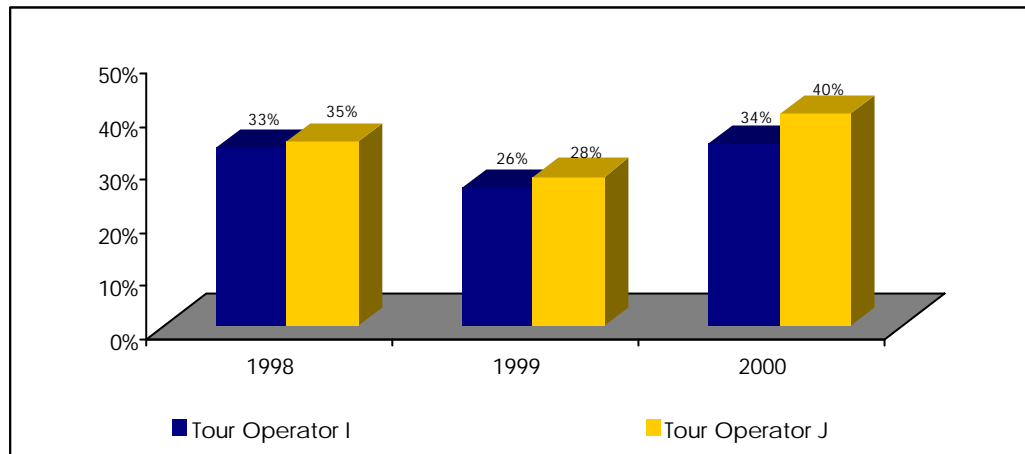


Source: Horwath Tourism & Leisure Consulting

2.3.5 Italian Outbound Tour Operators

The trend in the margins for the 2 tour operators surveyed for the Italian Lire is shown in Figure 2.13.

Figure 2.13: Italian Tour Operator Margins



Source: Horwath Tourism & Leisure Consulting

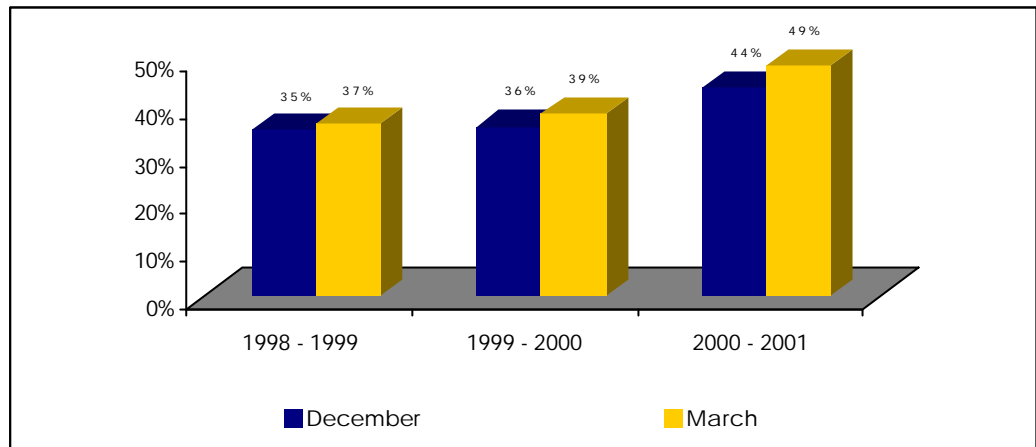
Tour operator J consistently placed higher margins on hotel rates than tour operator I. The margins taken on hotel rates showed a decrease in 1999. This is probably attributable to the millennium factors described in the previous section.

Effects of Rand Devaluation

The devaluation of the Rand relative to the Italian Lire caused margins on hotel rates for the survey sample to increase by some 4% between December 1998 and March 1999, as can be seen in Figure 2.14. The devaluation caused an increase of 8% between December 1999 and March 2000, and 11% between December 2000 and March 2001.

The two rate period structure introduced by some of the hotels surveyed does not seem to have curbed the increase in margins for Italian tour operators between December 2000 and March 2001.

Figure 2.14: Impact of the Rand Devaluation Relative to the Italian Lire



Source: Horwath Tourism & Leisure Consulting

2.4 Conclusion - Longitudinal Rates Analysis

A number of general conclusions can be reached, based on the analysis conducted above, which relate to the margins placed on hotel actual achieved rates by tour operators included in the sample.

In terms of all 15 hotels included in the analysis, the average margin dropped from 30% in December 1998, to 27% in December 1999 and then rose significantly to 40% in December 2000.

This decrease in the margin for December 1999 seems to be attributable to the tour operators not increasing their rates in line with the increase in hotel actual achieved rates for the Millennium season in Cape Town.

However, the dramatic increase in the average margin in December 2000 sees a reverse of the pattern for December 1999. In this instance, tour operators increased their rates for the hotels far above the hotels own mark-ups in actual achieved rates.

The margins increased between December and March of each season, as a direct result of the devaluation of the Rand. The effect of this devaluation was curbed to some extent for the December 2000 to March 2001 season, through the introduction of a second rate structure for February to March 2001 by some hotels.



The average margin across all hotels and tour operators grew by 7% between December 1998 and March 1999, 11% between December 1999 and March 2000 as a direct consequence of Rand devaluation. The increase in the margin was reduced to 5% between December 2000 and March 2000 due to the introduction of the second rate structure by some of the surveyed hotels.

3. COMPARATIVE DESTINATIONS ANALYSIS

3.1 General

In order to gain some insight into South Africa's competitiveness in terms of tour package pricing and tour package elements, a limited comparative analysis of tour packages available to South Africa and other long-haul destinations for outbound travel from our 5 main European source markets was undertaken.

The destinations against which to compare South Africa were chosen based on their possession of similar characteristics as long-haul destinations for the European source markets. The United States and Canada, for example, were not used as comparative competitive destinations as their tourism industries are far more developed than South Africa's.

The competitive destinations, as they relate to each of the 5 European source markets, are shown in Table 3.1. 1998 Arrivals figures were utilised in compiling the comparable destinations data, as total world arrivals figures for 1999 and beyond remain significantly incomplete.

Major outbound tour operators that offer group tours to South Africa and its comparative destinations were utilised for this analysis. Although it was not possible to identify identical tours offered to competitive destinations, or to provide the pricing of package components, the closest and most appropriate tour packages were chosen for the comparison.

After considering the various alternatives across the tour operators, a 7-night package was chosen as the ideal length of package to use as a comparison. Where 7-night packages were not available, the tour packages provided by the tour operator to the destinations were chosen on the basis of the most common length of stay. In addition, as packages to South Africa usually included some variety, and are not "stay put" holidays, packages that involved travelling were chosen where possible.

Table 3.1: Comparative Long-haul Destinations and Arrivals

Source Market	Comparable Destination	Number of Arrivals in 1998
UK	Australia	467 533
	India	376 513
	Hong Kong	325 738
	South Africa	321 281
Germany	Thailand	378 566
	Dominican Republic	366 599
	Brazil	262 739
	South Africa	195 878
Netherlands	Thailand	91 937
	Indonesia	81 507
	South Africa	83 022
	Singapore	60 073
France	Thailand	223 495
	Senegal	172 169
	Mauritius	162 775
	South Africa	72 994
Italy	Brazil	169 567
	Thailand	113 884
	Australia	51 400
	South Africa	37 204

Source: World Tourism Organisation - adapted

3.2 United Kingdom

Total outbound travel from the United Kingdom numbered some 53 million in 1998, a growth of 12% on 1997 figures.

The arrivals received from the United Kingdom in South Africa and the selected competitive destinations between 1996 and 1998 are displayed in Table 3.2.

Table 3.2: UK Arrivals for Competitive Destinations

Long-haul Destinations	1996	Growth	1997	Growth	1998	Growth
Australia	367 500	5,63%	410 617	11,73%	467 533	13,86%
% Total	0,85%		0,87%		0,88%	
% Long-haul	3,90%		3,95%		4,21%	
India	360 686	7,72%	370 567	2,74%	376 513	1,60%
% Total	0,83%		0,78%		0,71%	
% Long-haul	3,83%		3,56%		3,39%	
Hong Kong	397 153	10,15%	340 263	-14,32%	325 738	-4,27%
% Total	0,92%		0,72%		0,62%	
% Long-haul	4,22%		3,27%		2,93%	
South Africa	244 401	0,32%	283 735	16,09%	321 281	13,23%
% Total	0,56%		0,60%		0,61%	
% Long-haul	2,60%		2,73%		2,89%	

Source: World Tourism Organisation (WTO) adapted

Between 1996 and 1998 Australia and South Africa's shares of the total outbound long-haul United Kingdom market increased.

Two United Kingdom tour operator packages for the December 2000 to March 2001 season for the 4 destinations were analysed. One package offered per destination was chosen and considered across a number of elements. Table 3.3 shows the results of the research for one of the UK tour operators.

Table 3.3: Packages from the UK to Comparable Long-haul Destinations (1)

Destinations	Australia	India	Hong Kong	South Africa
Package Cost in Pounds	1460 (excluding international flights)	2185	1339	1095 (excluding international flights)
Length in nights	13	15	11	11
Departure Dates	daily	2 Feb; 16 Feb; 23 Feb	10 Feb; 24 Feb	5 Feb; 12 Feb; 19 Feb; 26 Feb
Flights	not included	British Airways	British Airways	not included
Meals	12 breakfasts; 4 lunches; 1 dinner	14 breakfasts; 2 lunches	8 breakfasts; 2 lunches	11 breakfasts; 4 lunches; 8 dinners
Tour Bus/ Other Transport	yes	yes	no	yes
Tour Guide	some of the time	yes	no	yes

Source: Horwath Tourism & Leisure Consulting

India is the most expensive destination at 2 185 Pounds Sterling for 15 nights. However the package to India includes international flights (unlike the packages for South Africa and Australia), an air-conditioned bus and is fully escorted. The Indian package is also 2 nights longer than the Australian package and 4 nights longer than the packages to Hong Kong and South Africa. Had the Australian package included international flights, been fully escorted and 15 nights in length, it is likely it would have been more expensive. In fact, taking into consideration the varying components and lengths of stay, the packages are all fairly similar in terms of pricing.

Table 3.4 shows the results of the research for another UK tour operator.

Table 3.4: Packages from the UK to Comparable Long-haul Destinations (2)

Destinations	Australia	India	Hong Kong	South Africa
Package Cost in Pounds	1395 (excluding international flights)	1415	1499	1860
Length in nights	12	14	9	14
Departure Dates	7 Feb; 21 Feb	Thursdays, Fridays, Saturdays and Sundays in Feb	Mondays in Feb	Saturdays in Feb
Flights	not included	Monarch airlines	Virgin Atlantic	South African Airways
Meals	11 breakfasts; 3 lunches; 2 dinners	14 breakfasts	9 breakfasts; 4 lunches	14 breakfasts; 4 lunches; 8 dinners
Tour Bus/ Other Transport	yes	yes	no	yes
Tour Guide	yes	yes	no	yes

Source: Horwath Tourism & Leisure Consulting

Of the 4 packages compared above, South Africa is the most expensive destination at 1 860 Pounds Sterling for 14 nights. India is less expensive at 1 415 Pounds Sterling, but it should be noted that the Indian package is comprised of one week touring and one week stay-put at a beach resort.

The Hong Kong and China package is shorter at 9 nights and does not included a fully escorted tour or an air-conditioned bus. Had the Australian package included international flights and been 14 nights in length, it is likely it would have been approximately the same price as the South African tour, or potentially more expensive. Again, if one considers the variations that exist between the different packages, it seems that they are all in the same price range for what they offer. As a result, it would appear that for the 2 United Kingdom tour operators used for the comparison, South African tour packages are not far more expensive than those offered to comparative destinations.

3.3 Germany

Approximately 82 million outbound trips were made from Germany in 1998, of which long haul travel comprised just 7,6 million. Tunisia is a major destination for this outbound market receiving 12% of long-haul German visits, and ranks 2nd in popularity as a long-haul destination after the United States.

However for the purpose of this analysis, we contend that Tunisia, although strictly a long-haul destination for Germany (as it falls into another geographical region of the world) is not comparable to South Africa, as it is considerably closer to Germany and as a result far more accessible as a holiday destination.

In 1998 German arrivals in South Africa comprised 0,24% of total German outbound travel and some 2,6% of German long-haul travel. South Africa ranks as the 9th most visited long-haul outbound destination for Germans.

The arrivals received from Germany in South Africa and the selected competitive destinations for Germany between 1996 and 1998 are displayed below.

Table 3.5: German Arrivals for Competitive Destinations

Long-haul Destinations	1996	Growth	1997	Growth	1998	Growth
Thailand	353 677	-3,32%	342 329	-3,21%	378 566	10,59%
% Total	0,45%		0,43%		0,46%	
%Long-haul	4,66%		4,48%		4,99%	
Dominican Republic	327 772	n/a	328 860	0,33%	366 599	11,48%
% Total	0,42%		0,41%		0,45%	
%Long-haul	4,32%		4,30%		4,83%	
Brazil	141 562	38,64%	140 578	-0,70%	262 739	86,90%
% Total	0,18%		0,18%		0,32%	
%Long-haul	1,86%		1,84%		3,47%	
South Africa	195 473	16,22%	193 446	-1,04%	195 878	1,26%
% Total	0,25%		0,24%		0,24%	
%Long-haul	2,58%		2,53%		2,58%	

Source: WTO adapted

Between 1996 and 1998 Brazil's share of Germany's long-haul arrivals increased quite substantially, while South Africa's share remained constant. Thailand and the Dominican Republic both saw an increase in the number of German arrivals they received as a percentage of total German long-haul travel.

Two packages for the December 2000 to March 2001 season for the 4 destinations were analysed. One package offered per destination was chosen

and considered across a number of elements. Table 3.6 shows the results of the research for one of the German tour operators.

Table 3.6: Packages from Germany to Comparable Long-haul Destinations (1)

Destinations	Thailand	Dominican Republic	Brazil	South Africa
Package Cost in DMarks	2219	2968	2939	4439 - Lufthansa; 4273 - LTU
Length in nights	7	7	7	7
Departure Dates	Thursdays, Saturdays and Sundays in Feb	Mondays in Feb	First 2 Sundays of Feb	Various
Flights	LTU	LTU	Varig	Lufthanza/ LTU
Meals	7 breakfasts	7 breakfasts; 7 dinners;	6 breakfasts	7 breakfasts; 4 lunches; 4 dinners
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

Of the four packages compared, the one offered for South Africa is by far the most expensive - partly due to the fact that it is described as a Deluxe tour (no other 7-day packages to South Africa were available for comparison from this tour operator). However a 12 night, 14-day tour of the Garden Route, advertised in the same tour operator’s brochure, is priced at 4 249 German Mark per person sharing. It does seem, in light of this that the 7 day South African tour compared above is not strictly comparable to the other destination packages considered in Table 3.6. Of the remaining 3 packages, Thailand is by far the cheapest, while the tour packages for the Dominican Republic and Brazil are fairly similar.

Four long-haul packages for another German tour operator are considered below. The 7 day package to South Africa is priced lower than the previous package and probably offers a more reasonable basis upon which to compare the competitiveness of German long-haul destinations.

Table 3.7: Packages from Germany to Comparable Long-haul Destinations (2)

Destinations	Thailand	Dominican Republic	Brazil	South Africa
Package Cost in DMarks	2462	2139 (excluding international flights)	3249	3629
Length in nights	7	7	7	7
Departure Dates	7 Feb; 21 Feb;	13 Feb; 27 Feb	4 Feb; 11 Feb	6 Feb; 2 Feb
Flights	Lufthanza	not included	Varig/ Lufthanza	South African Airways
Meals	6 days full board	half-board	7 breakfasts; 1 dinner	8 breakfasts; 3 lunches
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

Of the four 7 day packages compared in Table 3.7, the South Africa tour package is the most expensive. The package offered to Brazil is the next most expensive. It is likely that the package to the Dominican Republic would be comparable in price to the Thailand package with the inclusion of international flights and additional meals.

Of the comparable long-haul destinations considered for the German outbound market, it seems reasonable to deduce that South Africa is the least competitive in terms of pricing.

3.4 Netherlands

25 Million Dutch arrivals around the world were recorded for 1998, of which only 8,5% or 2 million were arrivals in long-haul destinations. Thailand is the third most popular long-haul destination, with South Africa ranking 4th.

Dutch arrivals in South Africa comprised 0,33% of total Dutch outbound travel and some 3,8% of Dutch long-haul travel.

The arrivals received from the Netherlands in South Africa and the selected competitive destinations between 1996 and 1998 are displayed in Table 3.8.

Table 3.8: Dutch Arrivals for Competitive Destinations

Long-haul Destinations	1996	Growth	1997	Growth	1998	Growth
Thailand	78 744	-3,40%	77 296	-1,84%	91 937	18,94%
% Total	0,35%		0,32%		0,37%	
%Long-haul	4,44%		4,08%		4,28%	
South Africa	59 357	26,11%	67 310	13,40%	83 022	23,34%
% Total	0,26%		0,28%		0,33%	
%Long-haul	3,35%		3,55%		3,87%	
Indonesia	122 410	-10,56%	144 622	18,15%	81 507	-43,64%
% Total	0,54%		0,61%		0,32%	
%Long-haul	6,91%		7,63%		3,79%	
Singapore	66 070	-6,40%	63 152	-4,42%	60 073	-4,88%
% Total	0,29%		0,26%		0,24%	
%Long-haul	3,73%		3,33%		2,80%	

Source: WTO adapted

In 1996 and 1997 Indonesia had a large share of the long-haul outbound Dutch market. This dropped considerably in 1998, in all likelihood due to internal political instability as well as devastating fires in the country. Singapore's share decreased slightly between 1996 and 1998, while Thailand and South Africa's market shares increased slightly over the same period.

Two tour operator packages for the December 2000 to March 2001 season for the 4 destinations were analysed. One package offered per destination was chosen and considered across a number of elements. Table 3.9 shows the results of the research for one of the Dutch tour operators.

Table 3.9: Packages from Holland to Comparable Long-haul Destinations (1)

Destinations	Thailand	Indonesia	Singapore	South Africa
Package Cost in Guilders	2350	2350	2745	3580
Length in Nights	19	16	9	16
Departure Dates	17 Feb	14 Feb, 28 Feb	7 Feb to 28 March	14 Feb
Flights	China Air	Singapore Airlines	Singapore Airlines	South African Airways
Meals	not included	16 breakfasts	3 breakfasts; 3 lunches	14 breakfasts
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

The tour package offered to South Africa is the most expensive. However the South African package does include accommodation in a private game reserve for two nights, which impacts upon the total price. Nevertheless the South African package out prices itself when compared to the tour package to Indonesia (which is of an equivalent length) and the tour package to Thailand (which is longer). Packages offered to Thailand and Indonesia are of a similar price although the package to Thailand is 3 nights longer.

Four long-haul packages for another Dutch tour operator are compared in Table 3.10.

Table 3.10: Packages from Holland to Comparable Long-haul Destinations (2)

Destinations	Thailand	Indonesia	Singapore	South Africa
Package Cost in Guilders	4295	3995	4995	6545
Length in nights	15	12	17	16
Departure Dates	2 Feb, 16 Feb	9 Feb	1 Feb	2 Feb, 16 Feb
Flights	China Airlines	Singapore Airlines	Malaysian Air	South African Airways
Meals	All meals included	All meals included	All meals included	16 breakfasts; 2 lunches; 6 dinners
Tour Bus/ other	yes	yes	yes	yes
Transport Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

Here, South Africa is also the most expensive of the packages offered. Although the package offered to South Africa is of an equivalent length to the one offered to Singapore and Thailand, it is between 1 500 and 2 000 Dutch Guilders more expensive per person sharing. South Africa is by far the most expensive packages destinations for the 4 destinations and packages compared in this analysis.

3.5 France

24 Million French arrivals were recorded in 1998 around the world, 28% of which were to long-haul destinations. France is South Africa’s 5th most important overseas source market, however South Africa is only France’s 19th most popular long-haul destination. French arrivals in South Africa comprised 0,3% of total French outbound travel and 1% of French long-haul travel.

Table 3.11: French Arrivals for Competitive Destinations

Longhaul Destinations	1996	Growth	1997	Growth	1998	Growth
Thailand	205 466	3,92%	202 643	-1,37%	223 495	10,29%
% Total	0,96%		0,89%		0,92%	
%Long-haul	3,40%		3,16%		3,32%	
Senegal	136 903		158 928		172 169	
% Total	0,64%		0,70%		0,71%	
%Long-haul	2,27%		2,48%		2,56%	
Mauritius	130 292	11,65%	145 173	11,42%	162 775	12,12%
% Total	0,61%		0,64%		0,67%	
%Long-haul	2,16%		2,26%		2,42%	
South Africa	62 831	17,38%	64 722	3,01%	72 994	12,78%
% Total	0,29%		0,28%		0,30%	
%Long-haul	1,04%		1,01%		1,09%	

Source: WTO adapted

Arrivals from the French outbound market were fairly steady for all four comparative destinations between 1996 and 1998. Arrivals in Thailand dropped slightly in 1997, but were on the rebound by 1998. The other three markets all experienced a slight increase in their share of the French outbound long-haul market between 1996 and 1998.

Two tour operator packages for the December 2000 to March 2001 season for the 4 destinations are considered in the following tables. One package offered per destination was chosen and considered across a number of elements.

Table 3.12: Packages from France to Comparable Long-haul Destinations (1)

Destinations	Thailand	Senegal	Mauritius	South Africa
Package Cost in Francs	6390	11190	13890/ 14690	12390
Length in nights	7	11	9	9
Departure Dates	1 Feb	7 Feb	4 Feb; 11 Feb	25 Jan
Flights	Thai Airways	Charter flights	Air Liberte	South African Airways
Meals	All meals included except for one dinner and one lunch	All meals included for 9 days; demi-pension for 3 days	All meals included except 5	All meals included
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

The packages compared for Mauritius and South Africa are both for 9 nights but the package to Mauritius is slightly more expensive. The 7-night package offered to Thailand is considerably cheaper at approximately half the price of the tour packages offered to Mauritius and South Africa. The tour package offered to Senegal is also cheaper although it is the longest package of the four compared, for 11 days. It is likely that the price for Senegal is affected by the fact that the flights are considerably shorter and in this instance are charter flights.

The four packages compared for the second French tour operator appear in Table 3.13.

Table 3.13: Packages from France to Comparable Long-haul Destinations (2)

Destinations	Thailand	Senegal	Mauritius	South Africa
Package Cost in Francs	7050	6990	10990	12750
Length in nights	7	7	7	9
Departure Dates	Thursdays in Feb	Fridays in Feb	Fridays in February	1 Feb; 15 Feb
Flights	Malaysian Airlines	Air France/ Air Dakar charter	Reunion/ Mauritius Air	South African Airways
Meals	2 breakfasts;6 lunches; 7 dinners	7 breakfasts;3 lunches; 7 dinners	7 breakfasts;5 lunches;6 dinners	9 breakfasts;9 lunches;8 dinners
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

The package offered to South Africa is the most expensive of the four, due at least in part to the fact that it is for 9 nights, whereas the other tours were for 7 nights. The Mauritius package is the next most expensive, followed by Thailand and Senegal respectively, both of which are considerably cheaper than the packages offered to South Africa and Mauritius.

It appears that South Africa is not a competitive tour group destination for the French market when compared to Thailand and Senegal in terms of price, but that it is reasonably competitive when compared to Mauritius on the same basis.

3.6 Italy

Over 18 million Italian arrivals were recorded in 1998 around the world. Between 1996 and 1998, Thailand’s share of Italian arrivals dropped, while Brazil’s share increased. Australia and South Africa’s shares of Italian long-haul travel both grew marginally over the period.

Table 3.14: French Arrivals for Competitive Destinations

Long-haul Destinations	1996	Growth	1997	Growth	1998	Growth
Australia	40600	10,33%	45600	12,32%	47828	4,89%
% Total	0,25%		0,26%		0,26%	
% Long-haul	1,47%		1,51%		1,59%	
Brazil	109834	30,75%	123114	12,09%	169567	37,73%
% Total	0,67%		0,69%		0,92%	
% Long-haul	3,98%		4,07%		5,63%	
Thailand	127765	47,75%	114803	-10,15%	104778	-8,73%
% Total	0,77%		0,64%		0,57%	
% Long-haul	4,62%		3,79%		3,48%	
South Africa	28962	5,35%	35000	20,85%	37204	6,30%
% Total	0,18%		0,20%		0,20%	
% Long-haul	1,05%		1,16%		1,24%	

Source: WTO adapted

Two tour operator packages for the December 2000 to March 2001 season for the 4 destinations were analysed. One package offered per destination was chosen and considered across a number of elements. The results of the research for one of the Italian tour operators are shown in Table 3.15.

Table 3.15: Packages from Italy to Comparable Long-haul Destinations (1)

Destinations	Brazil	Thailand	Australia	South Africa
Package Cost in Lire	4326	3690	5879	5520
Length in nights	8	12	9	12
Departure Dates	11 February	10 Feb; 24 Feb	11Feb; 25 Feb	11 Feb; 25 Feb
Flights	Varig/ Alitalia	Thai Airlines	Qantas	South African Airways
Meals	not included	12 breakfasts	1 lunch; 3 dinners	12 breakfasts;3 lunches; 3 dinners
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

The package offered to Australia is shorter at 9 nights yet more expensive than the tour package to South Africa. The tour package to Thailand is significantly cheaper although of an equivalent length in nights (12) to the package offered for South Africa. The Brazilian package is 4 nights shorter than the South African package and taking this into consideration is far closer in terms of a price comparison to the South African package than is the Thailand package.

Table 3.16: Packages from Italy to Comparable Long-haul Destinations (2)

Destinations	Brazil	Thailand	Australia	South Africa
Package Cost in Lire	4160	3122	6035	4996
Length in nights	8	9	9	12
Departure Dates	2 Jan to 23 Feb	Mondays in Feb	14 Feb; 28 Feb	19 Feb
Flights	Varig	Thai	Qantas	South African Airways/ Lufthansa
Meals	6 breakfasts; 2 dinners	19 meals included	not included	12 breakfasts; 1 dinner
Tour Bus/ Other Transport	yes	yes	yes	yes
Tour Guide	yes	yes	yes	yes

Source: Horwath Tourism & Leisure Consulting

As in the case of the previous tour operator package, Australia is the most expensive package destination of the four packages that were compared. South Africa is next most expensive, although the Brazilian package is for fewer nights, which would impact materially on its pricing and could be placed within the same range as the South African package. Once again Thailand is the cheapest package destination – almost half the price of the Australian package although for an equivalent number of nights.

3.7 Conclusion – Comparative Destinations Analysis

A number of general conclusions may be reached, based on the analysis conducted in this section, which relate to the price competitiveness of South Africa as a tour package destination for our main European source markets.

Most apparent is South Africa's inability to compete with Thailand in terms of price. South Africa's inability to compete against other Asian destinations such as Indonesia, Singapore and Hong Kong is also true, but to a lesser degree.

The Dominican Republic and Senegal were also cheaper package holiday destinations for the relevant long-haul markets. This is partially due to the package holidays to these markets consisting in part of stay-puts at beach hotels.

In the case of the packages offered to India by the United Kingdom tour operators surveyed, South Africa is competitive in terms of pricing. One of the tour operator packages to India is cheaper than the South African package due in part to the fact the package to India includes a week "stay-put" in Goa at the beach, influencing the total package price downwards.

South African package holidays have a competitive edge on Australian tour group packages in terms of pricing. When compared to Mauritius for the French market, South Africa is also within the same price range. Brazil appeared to be marginally cheaper than South Africa for the packages compared, but this may be attributed to the fact the Brazilian packages used in the comparison were typically shorter in duration than the South African packages.

4. CONCLUSION

The average tour operator margins achieved on the hotels rates included in the sample survey was 40% in December 2000, a marked increase on the 27% margin in December 1999 and 30% margin in December 1998.

The highest average margin across the 3 cities included in the survey was placed on Johannesburg hotel rates at 43% in December 2000. The margins on Cape Town hotel rates were more moderate than the national average in December 1999 and December 2000.

The average margin across all hotels and tour operators grew by 7% between December 1998 and March 1999, 11% between December 1999 and March 2000 as a direct consequence of the Rand devaluation compared to the currencies to which it was compared. The effect of this devaluation at 5% for the December 2000 to March 2001 season, was curbed to some extent through the introduction of a second rate structure for February to March 2001 at some hotels.

Based on research conducted into tour packages available to South Africa and other competitive destinations, South Africa's inability to compete with Thailand in terms of price is apparent. The Dominican Republic and Senegal are also less expensive package destinations than South Africa, partly due to the stay-put at beach hotels component of the packages offered to these destinations.

South Africa is competitive in the case of the packages offered to India and Brazil, and cheaper in the case of Australia, in terms of pricing for the tour operators surveyed. When compared to Mauritius for the French market, South Africa is also within the same price range.

ADDENDUM A: METHODOLOGY

1. LONGITUDINAL RATES ANALYSIS

In order to gain an understanding of the relationship between room rates achieved by South African hotels and the rates achieved by tour operators for the same hotels, these two rates were compared across a number of South African hotels for the same season (December to March) over a 3-year period.

1.1 Tour Operators

The tour operators for each of the 5 overseas source markets analysed in this assignment were identified with the assistance of the international marketing divisions of South African hotel groups; they represent some of the most established outbound tour operators for each of the 5 major source markets.

1.2 The Seasonal Analysis

A longitudinal analysis over 3 years was undertaken in order to be able to observe trends or patterns relating to margins on hotel rates over time.

During South Africa's winter season (Europe's summer season), rates awarded to tour operators tend to be inconsistent as they often include additional specials and discounting, making them impossible to compare year on year and across a number of tour operators. As a result the season for which the longitudinal analysis was conducted was the South African summer season. This is from 1 December to 31 March. The analysis was conducted for December to March 1998/ 1999, 1999/ 2000 and 2000/ 2001.

1.3 Hotels

The assignment was limited to the 3 major metropolitan areas in South Africa: Cape Town, Johannesburg and Durban. We arrived at the hotels utilised in the comparison through a consideration of those hotels appearing most often in the tour operators' brochures across the 5 source markets. 5 Hotels were included for each of the 3 metropolitan areas considered.

The identity and margins for the individual hotels will be kept confidential, as the intention of this assignment was to identify the trends in aggregate margins achieved over 3 years.

1.4 Rates

Our approach was to compare the rates for 2 tour operators for each of the major source markets for South Africa to the actual achieved rates for the hotels included in the analysis.

In order to do so we obtained the published hotel cost to customer rates for the South African hotels included in each of the tour operators' brochures over the three-year period and compared this to the hotel actual achieved rates for the hotels, as provided to us by the hotel's management.

The hotel cost to customer rate published in the tour operators' brochures, was taken as the tour operator achieved rate for the individual hotels. Sometimes a hotel cost to customer rate was not published and in these instances additional night rates were used instead. However this only occurred in a few exceptional cases and the additional night rates were not employed if they differed substantially from the trends in hotel cost to customer rates.

Published tour operator hotel cost to customer rates are usually 'per person sharing per night including breakfast' and it was this rate that we used in our analysis. Where the published rates did not include breakfast, we took this into consideration when identifying the appropriate hotel achieved rate. All the rates include VAT. We have made the simplistic assumption that payment was made on the actual dates compared, i.e.: December 1 and March 31st, although this clearly would not have been the case.

Tour operators change the hotels included in their itineraries from time to time and as a result it was not always possible to get each tour operator's hotel cost to customer rates for the same hotel over the three-year period. As a result the margins are considered in aggregate in this assignment in order to provide an indicative view of the trends over the last three years rather than a definitive analysis of margins for specific hotels.

1.5 Exceptions and Inconsistencies

In a few cases tour operators charged more than one rate for the time period under consideration. In these instances the rates that were utilised in our analysis were the ones that applied for the majority of the time over the December to March period. As a result the analysis does not include the inflated cost to customer rates over the Christmas and New Year period.

2. COMPARATIVE DESTINATIONS ANALYSIS

In order gain an understanding of South Africa's competitiveness in terms of tour package pricing and tour package elements; a limited comparative analysis of tour packages available to South Africa and other long-haul destinations for outbound travel from our 5 main European source markets was undertaken.

2.1 Tour Operators

Tour operators that provide package tours to all of the comparable destinations for the 5 European source markets were chosen for the analysis. The tour operators were identified together with hotel representatives included in the analysis as well as South African Tourism representatives situated in the source markets under consideration.

2.2 Comparable Destinations and Packages

Comparable destinations to South Africa were chosen based on their possession of similar characteristics as long-haul destinations for the European source markets. The United States and Canada were not used as comparative competitive destinations as their tourism industries are far more developed than South Africa's and the number of arrivals they receive from the source markets under comparison too great to compare to arrivals received in South Africa from the same source markets.

Although it was not possible to identify identical tours offered to competitive destinations, or to provide the pricing of package components, the closest and most appropriate tour packages were chosen for the comparison.

2.3 Seasonal Analysis

Tour packages available during the December 2000 to March 2001 European winter were compared. As the rates varied across different departure dates during this season, February was chosen as the month for which to undertake the analysis.

2.4 Exceptions and Inconsistencies

In a few instances international airfares were not included in the package price, and analysed accordingly. In the case of one of the French tour operators, the package available to South Africa had no February departure dates and as a result the package compared is valid for a departure on the 25th January instead.

ADDENDUM B: EXCHANGE RATES ANALYSIS

		1998 01-Dec	1999 31-Mar	1999 01-Dec	2000 31-Mar	2000 01-Dec	2001 26-Mar
UK	South Africa	9,36	10,00	9,87	10,51	11,05	11,36
Germany	South Africa	3,37	3,40	3,17	3,24	3,47	3,62
Italy (1000's)	South Africa	3,40	3,43	3,21	3,27	3,50	3,61
Netherlands	South Africa	2,99	3,02	2,82	2,88	3,08	3,22
France	South Africa	1,00	1,01	0,95	0,97	1,03	1,08