SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Assessment of Potential Impact of Implementation of the Yamoussoukro Decision on Open Skies Policy in the SADC Region

By:
Rexter Ndhlovu and Andy Ricover

Submitted by:
AECOM

Submitted to:
USAID/Southern Africa

Gaborone, Botswana

March 2009

USAID Contract No. 690-M-00-04-00309-00 (GS 10F-0277P)

P.O. Box 602090 ▲Unit 4, Lot 40 ▲ Gaborone Commerce Park ▲ Gaborone, Botswana ▲ Phone (267) 390 0884 ▲ Fax (267) 390 1027
E-mail: *info@satradehub.org*

USAID FROM THE AMERICAN PEOPLE | SOUTHERN AFRICA

TABLE OF CONTENTS

ACRONYMS, ABBREVIATIONS AND CODES *3*

EXECUTIVE SUMMARY *4*

RECOMMDATIONS..... *7*

1. INTRODUCTION *8*

2. BACKGROUND..... *8*

3. OBJECTIVES OF STUDY *11*

4. STUDY METHODOLOGY *12*

5. ANALYSIS BY COUNTRY *15*

5.1 ANGOLA *15*
5.2 BOTSWANA..... *22*
5.3 MADAGASCAR..... *25*
5.4 MOZAMBIQUE..... *31*
5.5 NAMIBIA *37*
5.6 SOUTH AFRICA..... *43*
5.7 TANZANIA..... *57*

6. OVERALL CONCLUSIONS *65*

7. RECOMMENDATIONS..... *76*

APPENDIX I: IMPACT OF RECESSION..... *81*

APPENDIX II: FREEDOMS OF THE AIR *82*

APPENDIX III: THE MOZAMBIQUE CASE *83*

Annex 1: List of Contacts..... 87

ACRONYMS, ABBREVIATIONS AND CODES

AASA	Airlines Association of Southern Africa
ACSA	Airports Company South Africa
AFCAC	African Civil Aviation Commission
AFRAA	African Airlines Association
AGOA	African Growth and Opportunities Act
ASA	Air Service Agreement
ATAG	Air Transport Action Group
AU	African Union
BASA	Bilateral Air Services Agreement
CAA	Civil Aviation Authority
CAC	Civil Aviation Committee
CIA	Cape Town International Airport
COMESA	Common Market for Eastern and Southern Africa
DAR	Dar-es-Salaam
DCA	Department of Civil Administration
DIA	Durban International Airport
EAC	East African Community
ECA	Economic Commission for Africa
ET	Ethiopian Airlines
EU	European Union
GBE	Gaborone
GDP	Gross Domestic Product
HKIA	Hosea Kutako International Airport
HRE	Harare
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IOSA	IATA Operational Safety Audit
JCA	Joint Competition Authority
JNB	Johannesburg
JNIA	Julius Nyerere International Airport
KIA	Kilimanjaro International Airport
KQ	Kenyan Airlines
LAD	Luanda
LAM	Linhas Aéreas de Moçambique
LUN	Lusaka
MPM	Maputo
OAG	Official Airline Guide
O&D	Origin and Destination
ORTI	OR Tambo International Airport
RCA	Regional Competition Authority
REC	Regional Economic Community
RECS	Regional Economic Communities
SAA	South African Airways
SADC	Southern Africa Development Community
SW	Air Namibia
TAA	Tanzania Airport Authority
TC	Air Tanzania
TFCB	Trade Facilitation and Capacity Building
USAID	United States Agency for International Development
WDH	Windhoek
YD	Yamoussoukro Decision

EXECUTIVE SUMMARY

In October 2007, the SADC Ministers responsible for Air Transport decided to start full implementation of the Yamoussoukro Decision (YD) with effect from 01 January 2009. The Ministers at the same time directed that a Study be undertaken to assess the potential impact of implementing the YD on Open Skies Policy in the SADC Region. Towards this end, visits were made to seven Member States, namely; Angola, Botswana, Madagascar, Mozambique, Namibia, South Africa and Tanzania.

The purpose of the missions was to consult with and obtain data and information from key sector stakeholders involved in the regulation, management and operation of air services and airport terminals. Accordingly, consultations were made with Ministries of Transport, Civil Aviation Authorities, Airlines and Airport Authorities in the seven countries. Consultations were also made with the Ministries of Tourism in five countries and the Ministries of Trade in Madagascar and in Tanzania.

The Study, among other things, established that most States appreciate the potential of YD to positively impact on air traffic growth in the region and on individual States economies. The endorsement of YD implementation is intended to attain sustained and competitive air transport systems that would promote investments in the region and contribute to the further development of trade and tourism. Accordingly, Governments are reforming, policies, laws and institutions, to facilitate the liberalization process. However, two of the surveyed States are yet to align their aviation legislation with the provisions of YD.

Member States also recognised that liberalization would need to be accompanied by investments necessary to improve aviation safety and security including capital outlays relating to infrastructure development. Liberalisation would impact on safety and security needs. YD implementation will therefore have to be accompanied by significant improvement in physical infrastructure and technical regulatory capacity. States are cognizant of the need to enhance the capacity of national airlines to prepare them for competition in a liberalized environment. National airlines provide essential domestic services and States do not wish to see the emergence of monopolies on intra-regional routes as monopolistic situations would defeat the objectives of YD which seeks to promote fair competition practices. States therefore support national airlines in a variety of forms to ensure their survival and sustainability. Towards this end, programmes are underfoot in some countries to strengthen and reposition national airlines to be more competitive.

Given this balance of benefits on one hand and challenges on the other, the general conclusion was that YD must be implemented in such a manner that its advantages are not lost and the legitimate concerns are also addressed.

Highlights of findings and conclusions are summarized as follows:

a. Nearly all countries have policies that endorse YD implementation and efforts are underway to reform policies, laws and institutions, to facilitate the liberalization process. Autonomous Civil Aviation Authorities have been established in almost all States to be responsible for technical regulation. However, most Authorities suffer from shortage of skilled manpower mainly due to modest conditions of service which are not competitive enough to attract and retain such skills.

b. SADC Member States use bilateral air services agreements between each other in negotiating market access rights. Some of these agreements are still to be aligned with YD provisions particularly with respect to the granting of 5th freedom traffic rights.

c. States are at various levels in the process of creating the enabling environment to facilitate liberalization through enacting the necessary domestic legislation to implement the YD.

d. There is need to familiarise Member States on the role of Competition Authorities and the application of regional Competition Regulations.. Legal and institutional structures are already in place at regional and sub-regional levels.

e. Nearly all the States have liberalized the domestic air transport markets. Private airlines have been established to compete for traffic in these markets. There is gradual liberalisation and varying degrees of YD implementation within the framework of existing Bilateral Air Service Agreements (BASAs). .As a result, there is greater flexibility in the granting of rights with the exception of 5th freedom.

f. All the surveyed States have a dominant state owned national carrier, designated to operate scheduled regional and long haul routes. Some airlines are still depended on government assistance and protection to sustain their operations. Privately owned airlines are primarily engaged in domestic and charter operations which have significantly improved connectivity and competitiveness.

g. Most states are concerned that full liberalisation in terms of the YD, if not carefully executed, would lead to the collapse of national airlines which are seen as tools for national development. Their demise might impact negatively on the provision of domestic services. Governments are keen to ensure the f competition regulations are complied with to avoid anticompetitive practices which are inconsistent with the objectives of YD. They wish therefore to implement liberalisation measures gradually commensurate with the capacity of the airline to compete. In this respect a number of States are investing in their airlines in preparation for liberalisation. However, the consultants view is that protecting airlines from competition would likely result in the airlines remaining too weak to ever meet the challenges of a liberalized market..

h. However, States also recognise that YD has potential benefits for local airlines as it will create the freedom for them to operate on commercial basis and free the taxpayer from the burden of supporting them. Indeed, some national airlines have already identified potential new markets that may open following YD implementation.

i. There are few alliances and other fundamental cooperative ventures between and among SADC carriers. The only agreements on record are simple code share agreements. One reason for this is that most of them have yet to meet operational standards that attract alliance partners. It is recognised that protectionism, government subsidies and bailouts also remove the motivation for airlines to enter into deeper cooperation arrangements.

j. Tariffs have largely been liberalised as Government approval is not required in most cases. However, it was not possible to determine any reduction in tariffs due to non availability of relevant data.

k. YD implementation has enormous potential positive impact for airports in terms of generating revenue growth and opportunities for expansion in services and facilities.

l. YD implementation has encouraged some States to upgrade their airport infrastructure in response to anticipated traffic growth. There is also the need to review the capacity of airports and airspace as integrated systems in the context of anticipated traffic growth occasioned by the liberalisation process. New airports, major rehabilitation and expansion programmes are under way in nearly all countries in response to current and forecast volumes of traffic.

m. States are aware of the imperative necessity to match traffic growth with the capacity to enforce technical regulation and fleet modernisation.

n. In recognition of the positive potential impact of air transport market liberalisation, most States have prioritised tourism as one of the economic growth sectors that can help achieve growth in the economy. Air transport is essential to achieving this objective as airlines fly in the bulk of

international tourists. It is anticipated that YD implementation will result into more services and lower prices.

The level of connectivity among the seven studied states was measured as an indicator of the current policies in place and the level of connectivity in the region. Towards this end, the liberalization would affect that connectivity in the degree that either local or regional airlines would be able to develop new markets.

Accordingly the following were established:

a. Routes between the seven member states are mostly operated by their national flag carriers, with similar capacity offered at both ends, based on the allowance set forth in the Bilateral Air Service Agreement that still governs their relationships.

b. One country's airline is the only airline, within the studied countries to have developed a hub at their home base and is the only carrier serving all but one of the studied countries, amply providing the capacity offered in all of these routes.

c. While the member countries have signed the YD, most countries have not fulfilled their commitments and are maintaining protective policies without freeing capacity allocation. In the same vein most national carriers have not taken opportunity of the protective period to solidify their business cases.

d. Protective restrictions are introduced with the intention of protecting the local airline and their employees but they come at a very high cost, which is often underestimated, or not calculated at all. The resulting effect of the liberalization may leave airlines unprotected, but the ultimate effect on the economy could be dramatic.

e. Studies have indicated that traffic could increase about 20 percent as a result of the liberalization. The derived effect on tourism and trade, with all the multiplicative effects, can bring up to additional USD 1.5 billion[1] to the SADC region, including 70,000 new jobs. Therefore, by restricting traffic to protect the airlines, a significant economic benefit is being lost.

f. Another potential impact of the liberalisation process is that route networks will change dramatically, pursuing the markets, regardless of borders and defined entry points. Connectivity will no longer be dependent on major hubs, but defined by carriers that may be free to set their networks according to the traffic demand. This will still leave room for small local and sub regional carriers which will not be challenged by the big network players. Moreover, those carriers could benefit from the traffic funnelled by the network operators, serving as feeders or distributors.

g. In summary, while the implementation of YD will place some airlines in a difficult competitive environment, and might even cause some of them to fail, it will remove existing artificial restrictions and generate more competition between the airlines. The increased competition will not only improve connectivity with the introduction of new non-stop services, but will also create a downward pressure on fares, which will benefit the travelling public.

[1] Clears Skies Over Southern Africa –ComMark Trust, October 2006

RECOMMENDATIONS

In light of the potential benefits for the region, it is recommended that YD is implemented in line with decisions taken at various policy organ levels. However, it is also recognised that liberalisation will be accompanied by some costs and negative consequences. The following recommendations may therefore be considered to facilitate implementation:

a. Member States should express their commitment to implementing YD by enacting enabling legislation and repealing any laws that are in conflict with YD.

b. The SADC Regional Competition Authority should enforce regulations to facilitate uniform region-wide implementation. In addition, harmonised bilateral agreements based on YD should be adopted as an implementation measure.

c. The institutions to regulate competition practices should be adequately resourced, capacitated and expeditiously activated to address concerns about such activity. They must be strengthened by building capacity for undertaking investigations and analysis involved in the determination of anti competitive practices.

d. States should amend aviation policies to ensure that old aircraft are not allowed to enter market to address safety concerns. This should include the phasing out of Chapter 2 aircraft.

e. States should take measures to strengthen national airlines to prepare them to compete in a liberalised environment. However, the consultants' preferred alternative is to let these airlines compete in the liberalised market and allow them to respond to this challenge rather than defer competition until they are ready as they are unlikely to be ever ready. Consultants strongly recommend this option.

For practical reasons the gradual approach to liberalization which allows the YD to immediately take off with those countries that are ready and willing and the rest to follow after the transition period is recommended. This approach basically recognizes and formalises the fact that countries are at various stages of readiness to fully implement the YD and can be designed to accord official recognition and give structure to a region-wide agreed YD implementation schedule.

a. Gradual approach to liberalization which allows the YD implementation to immediately take off with those countries that are ready and willing and the rest to follow after the transition period is recommended. This approach basically recognizes and formalises the fact that countries are at various stages of readiness to fully implement the YD and can be designed to accord official recognition and give structure to a region-wide agreed YD implementation schedule.

b. The problem of inadequate infrastructure and YD implementation affects all Member States. A regional response would therefore be appropriate to facilitate mobilisation of massive resources that will be required to meet the identified infrastructural developments needs of all States. A coordinated regional infrastructure development Plan of Action should therefore be put in place. However, the need for infrastructure development does not constitute sufficient grounds to delay the YD implementation.

A combination of these measures could facilitate attainment of the objective of liberalisation as provided in the SADC Protocol on Transport, Communications and Meteorology.

1. INTRODUCTION

The SADC Ministers responsible for Air Transport directed that a Study be undertaken to assess the potential impact of implementing the Yamoussoukro Decision (YD) on the open skies policy in the SADC region. This followed their decision in October 2007 to start full implementation of YD with effect from 01 January 2009. The aim of the study would be, inter alia, to investigate and analyse the impact of the implementation of the YD, and inform Member States, on the proactive implications and measures to be adopted to facilitate YD implementation. The study was funded by USAID as provided in a Memorandum of Understanding (MoU) signed between the US Government and the Southern African Development Community (SADC) Secretariat on 22 May 2008.

The conclusions and recommendations of the study are largely based on analysis of findings from the seven pre-selected sample States namely; Angola, Botswana, Madagascar, Mozambique, Namibia, South Africa and Tanzania. Malawi, Zambia and Zimbabwe were covered in a similar study conducted for COMESA. The non-coverage of all SADC countries was due to financial constraints. The study highlights the positive impact of liberalisation and points out possible negative consequences and challenges on the road to full implementation.

2. BACKGROUND

The Southern African Development Community (SADC) has been in existence since 1980. The transformation of the organisation from a Coordination Conference into a Development Community (SADC) took place on 17 August, 1992, in Windhoek, Namibia when the Declaration and Treaty was signed at the Summit of Heads of State and Government thereby giving the organisation a legal character. SADC comprises fifteen Member States at different levels of development. The Member States are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. The region's population is in excess of 300 million. The main aim of SADC is for regional economic integration and social Development. The realisation of this vision would depend significantly on the ability of transport in general and air transport in particular, to ensure efficient and free movement of intra-SADC and extra SADC trade.

The Community derives its authority on air transport from the SADC Protocol on Transport, Communications and Meteorology. The Civil Aviation Committee (CAC) is responsible for air transport liberalisation. The Committee coordinates all issues pertaining to air transport and follows up implementation of the Yamoussoukro Decision. To this effect, it has in place a Steering Committee on the implementation of the Decision. CAC reports to the Committee of Senior Officials, which in turn reports to the Committee of Ministers

2.1 The Importance of Air Transport

Air transport plays a vital role in global, regional, and national economies. It is essential for competing effectively in the global markets, facilitating the growth of trade, tourism and international investment, and connecting people across continents. The industry is critical to Africa. It generated around 430,000 jobs and contributed more than USD 9.2 billion to African GDP in 2006 (ATAG). While air transport plays an important role in itself, its main role is to facilitate economic activity. If these catalytic effects are included, it is estimated that the air transport industry in Africa contributes US$55 billion to the continent's GDP, and creates jobs for 3.1 million people. Air transport has a particularly important role to play in the growth of SADC, whose economies are geographically isolated, sometimes landlocked, and often hamstrung by poor transport infrastructure. In these circumstances, aviation is often the only option for bringing in tourists and sending perishable products to markets.

2.2 SADC Air Transport Services

2.2.1 Airports

There are approximately 200 airports and aerodromes distributed in the 15 countries of the region. Airports in capital cities serve as entry points for scheduled international air services in nearly all SADC countries. About 80 airports are located in the surveyed States out of which 10 cater for international services with the Johannesburg hub providing connections to most regional international airports.

Without exception, SADC airports are Government owned. However, most are managed as commercial entities by autonomous statutory bodies established for this purpose. Countries in this category include Angola, Madagascar, Namibia, South Africa Tanzania and Zambia. In Malawi and Zimbabwe the Civil Aviation Authorities are also responsible for the commercial operations of airports. They combine regulatory and airport administration functions. ASECNA is involved in the management of airports in Madagascar.

2.2.2 Airlines

Overall, there are an estimated 70 airlines in the region, out which 20 operate scheduled international services. Together they operate a mixed fleet of over 180 aircraft. Twelve of the international operators are state owned in 11 Member States. The rest are private airlines that operate mainly domestic and charter services. However, privately owned carriers have been designated to operate intra-regional scheduled services in at least 4 Member States. With respect to the 7 surveyed States, 14 airlines, consisting of 6 state and 8 private owned carriers, operate international services in these countries with a fleet of about 130 aircraft. However, only 4 are intercontinental operators. SAA is the dominant carrier in this respect as it operates to nearly all Member States and carries most of the inter-regional traffic via its Johannesburg hub. ET and KQ are the other African airlines that provide scheduled international services to and from the region. Over 60% of long-haul traffic out of the region is flown by approximately 50 non-SADC carriers.

2.3 Regulatory Framework

The operation of air services in SADC as in other African Regional Economic Communities are based on bilateral air services agreements between Member States through which decisions on market access are made in the exercise their sovereignty over their air space. Although these bilateral have been relaxed over the years, most still remain restrictive in many important ways particularly with respect to the exchange of traffic rights, mainly the 5th freedom. This restrictive regulatory environment has inhibited the growth of the air transport sector and negatively impacted on other sectors that are heavily dependent on air transport, such as the tourism sector. This is also inconsistent with the development of a seamless, integrated, efficient safe, cost effective and responsive air transport which is important to the realization of the general objectives of SADC.

2.4 The SADC Protocol on Transport

The SADC Protocol on Transport, Communications and Meteorology signed in 1996 and effected in 1998, provides the overarching legal and broad policy framework for cooperation, and defines the strategic goals for the transport, communications and meteorology sectors. Among other things, the Protocol provides a framework for the liberalization of the air transport sector. Article 9.2 of the Protocol captures the commitment by SADC States to gradual liberalization of intra-regional air transport markets for the SADC airlines and to promote and sustain competition between air service providers. Further to this, the States resolved that the region's "Open Skies Program" would be based on the Yamoussoukro Declaration of 1988.

2.5 The Yamoussoukro Decision (YD)

In October 1999, African Ministers of Transport adopted the Yamoussoukro Decision relating to the implementation of the Yamoussoukro Declaration concerning the liberalization of access to air transport markets in Africa. The Yamoussoukro Decision entered into force in July 2002 after a two-year transition period. Regional Economic Communities (RECs) were to be the implementing agents of the Decision.

YD provides for the liberalization of scheduled and non-scheduled air transport services within Africa. It represents a comprehensive agreement of agreed concepts and principles for liberalization of intra-African air services. The Decision only deals with intra-African air transport; domestic air services and relations with third countries would continue to be governed by intergovernmental bilateral air services agreements negotiated with such third countries. However, in the wake of the European Union's intentions to negotiate as a block, initiatives are underway at the level of the AU to adopt common guideline for the negotiation of air service agreements between African Union and European Union States. SADC may also have to develop a common position for negotiating air transport agreements with non SADC African States when the region starts to implement the Decision in 2009.

In summary, the Decision:

- removes all restrictions on traffic rights including the fifth freedom
- removes all restrictions on capacity and frequency between city pairs
- provides for non-regulation of tariffs by government
- provides for multiple designation
- provides for complete liberalization of cargo and non-scheduled air services

The Decision also provides for broader eligibility criteria for airlines for designation and authorization purposes. One such eligibility criteria are that its principal place of business is located in the State concerned. Another important point to note is that the designated airline must be capable of demonstrating it ability to maintain standards at least those equal to ICAO. When implemented, YD will replace the current fragmented regulatory regime by a unified system that gives airlines commercial opportunities on an equal basis and ensure that their activities will be governed by a common body of aviation rules.

2.6 YD Implementation Overview

2.6.1 Continental Level

At continental level, the African Union (AU) has put in place the legal and institutional framework for the full implementation of the YD. To this end, the functions of the Executing Agency have been entrusted in the African Civil Aviation Commission (AFCAC) pursuant to Article 9 of the YD and AFCAC is being restructured accordingly.

2.6.2 Bilateral Level

The YD is largely being implemented within the framework of existing Bilateral Air Service Agreements (BASAs).In this regard, some countries have, revised these agreements to incorporate YD principles to open up market access in a manner not contemplated in traditional BASAs. For example, Ethiopia, South Africa, Kenya, Tanzania, Uganda and Zambia have particularly been successful in opening up markets through "Open Skies" bilateral agreements based on YD.

2.6.3 Regional Level

SADC is one of the six (6) regional groupings which constitute the building blocks for the African Economic Community (AEA) and the African Union (AU). The AU has designated these Regional Economic Communities (RECs) as implementing agents of the Decision in their sub regions. Consequently, the RECS have developed a number of arrangements to facilitate implementation of YD in their respective geographical areas. In line with the common objective of progressive harmonisation and integration of their air transport polices and regulations, SADC together with COMESA and EAC have agreed on joint programme and approaches to YD implementation. The three (3) RECS have developed common arrangements to facilitate effective YD implementation.

2.7 COMESA, EAC and SADC Approved YD Framework

In March 2002, the SADC Ministers of Transport endorsed that the Decision should be implemented by August 2002 and to facilitate this, among others, recommended the development of a Code of Fair Competition Practices and harmonization of sub-regional initiatives so that common rules can be developed for uniform application throughout Africa. The Ministers further directed that SADC, COMESA and EAC should work together to develop the rules. The Unified Competition Regulations for COMESA, EAC and SADC were approved by the three RECs at the end of 2004.

2.8 Joint Competition Authority (JCA)

In 2007 the three Regional Economic Communities (RECs) established the Guidelines, Provisions and Procedures for the implementation of the Competition Regulations and accordingly established the Joint Competition Authority (JCA).The JCA is to exercise oversight over the implementation of the Competition Regulations in the three Regional Economic Communities.

2.9 Relations with Third Countries

Air transport relations between individual Member States and non SADC countries are governed by bilateral air services agreements concluded with such countries and multilateral agreements they are a common party to. It is opportune in this regard that SADC should consider adopting a common external policy to govern relations with third countries.

3. OBJECTIVES OF STUDY

The overall objective of the study was to assess the potential impact of implementing the YD on open skies policy in the SADC region.

The specific objectives were:

i. Assessment of the institutional arrangements within the Member States, and their adequacy for the implementation of the Yamoussoukro Decision;
ii. Identification of measures and interventions required at the level of Member States and carriers to enhance their preparedness for the implementation of the SADC “Open Skies Policy” and how these measures could be implemented;
iii. Identification of any other relevant information that may enlighten the states and stakeholders to enable them to prepare adequately for air transport liberalization;
iv. Identification of any other relevant intervention that may assist states in preparing for the YD implementation;
v. Analysis of the State of the airline industry in the SADC Region in the context of the YD;
vi. Assessment of both the positive and adverse effects of an “Open Skies Policy” in the SADC region at both national and regional level;

vii. Identification of the financial implications to the current state owned and privately owned airlines if the YD is implemented;

4. STUDY METHODOLOGY

The study was structured in a way that two consultants were to work as a team but with individual activities to undertake to achieve the specific objectives of the study, and then integrated them in one single report. While the work of Mr. Ndhlovu involved extensive field work as well as desk research, Mr. Ricover output was purely based on desk research, including the information collected by Mr. Ndhlovu in the field.

Field missions were conducted in seven (7) selected States in the SADC region (Angola, Botswana, Madagascar, Mozambique, Namibia, South Africa and Tanzania). The missions were undertaken from 21 September to 19 October 2008. The purpose of the missions was to consult with and obtain data and information from key sector stakeholders involved in the regulation, management and operation of air services and airport terminals. Accordingly, consultations were made with Ministries of Transport, Civil Aviation Authorities, Airlines and Airport Authorities in almost all countries. Consultations were also made with the Ministries of Tourism in five countries and the Ministry of Trade in Madagascar and Tanzania. Also visited were SADC headquarters and the Southern African Transport Hub in Gaborone. The Airlines Association of Southern Africa (AASA) sent in written comments. See Annex 1: List of contacts.

To supplement this data gathering effort a questionnaire was delivered to respective stakeholders. Questionnaire responses on the spot formed the basis of discussions. It may be noted in this regard that only the Malagasy Civil Aviation Authority and the Ministry of Tourism had returned completed questionnaires at the time of submitting this report.

Accordingly, assessment of respective stakeholders was on the following aspects:

4.1 Ministries of Transport and Civil Aviation Authorities (CAAs)

The Ministries of Transport, or Aeronautical Authorities, and Civil Aviation Authorities, provided an overview of the potential impact of liberalization on the local air transport sector. Particular attention was paid to national policies and legislation on the air transport sector, particularly those that have a bearing on YD and hence may require modification.

In addition, the investigations focused on institutional arrangements in place and their capacity to meet the challenges of liberalization and the ability to take advantage of opportunities offered by a liberalized environment. A review of current state of implementation of key YD provisions served as a staging point for the assessment process.

4.2 Airlines/Airports

For airlines (those providing international services) the focus was their perception of the impact of operating in liberalized market free from traditional government protection. In this regard, the assessment was on their ability and preparedness to compete in a liberalized market. . Airlines that were consulted are: Air Madagascar, Air Namibia, Air Tanzania, Precision Air, South African Airways and TAAG – Angola Airlines. None of them returned a completed questionnaire.

Consultations with airports were on their organisational and management model i.e. whether the airports were autonomous and operating as commercial entities. It was also to establish the capacity of the infrastructures to handle increased air traffic activities resulting from liberalization. Above all expansion and rehabilitation programs and plans in place to improve the infrastructure.

Constitutions were held with the airport authorities of Angola, Madagascar, Namibia, South Africa and Tanzania. Only Madagascar returned the questionnaire.

As for the Ministries of Tourism, the focus was on the expected contribution of air transport liberalization to the promotion and growth of the tourism sector.

4.3 Benefits of Liberalization

The assessment was also conducted against known and perceived benefits of air transport liberalization. In this regard, experience from other regions of the world that have adopted liberalization demonstrates that it can have positive impact for both consumers and airlines. The limited YD implementation in the African region also shows the positive impact of air transport liberalization. Various studies including by IATA make the same conclusion that liberalization can provide significant benefits for consumers, airlines and national economies. Consumers benefit in terms of greater choice, lower fares and improved standards and quality of service.

Airlines benefit from the greater commercial freedom that allows them to allocate capital more efficiently, to respond better to changes in demand in markets and to improve productivity and efficiency. It enhances their competitive position by repositioning them to be more competitive. Liberalization has the potential to enable them to create new services and increase efficiency for the benefit of the travelling public.

Liberalization also provides significant benefits for the wider economy. For example, a recent Study by Inteervistas quoted by IATA found that globally, liberalising some of the current major restricted country pair routes could increase traffic by 63% and generate an additional $490billion of GDP. Liberalization also stimulates private sector participation in the development of the air transport industry.

In addition, liberalization has the potential to encourage the development of tourist and cargo traffic. The potential for tourism growth is enormous. Every major study has concluded that tourism could be major source of job creation and contributor to GDP. However, the growth of this sector is constrained by inadequate air services and high ticket prices. YD implementation is expected to result into more services and lower prices due to the expected competition on currently capacity constrained routes

Experience in the sub-continent also shows positive impact of liberalization. The ComMark Trust Study of 2006 found, among other things that, the liberalization of the Kenya/ South Africa bilateral agreement in 2003 allowing multiple designation and removal of restrictions on frequency and capacity, resulted in a 69% increase in passenger volumes by 2005 on the Nairobi-Johannesburg route. In addition domestic liberalization in South Africa allowed the entry of low cost carriers. The same Study also found that allowing competition on the Johannesburg –Maputo route could result in 37% reduction in fares.

Furthermore an ECA Study indicated that where a more liberal approach had been adopted, fares had gone down by more than 30% in Eastern Africa as well as between East and Western Africa. A recent Study on the Implementation in the COMESA liberalisation programme found that the flexibility in the granting of traffic rights had a very positive impact in the quantity of air services offered. New routes had been opened adding new flights, frequencies and new players in the marketplace. These new services were in part responsible for the continued improvement in connectivity, particularly between Ethiopia, Kenya, Uganda and Sudan. Frequencies to Entebbe increased by 12 to 49 between March 2007 and March 2008 while Addis Ababa increased its connectivity by 19 frequencies during the same period. Nairobi benefited the most with 23 additional frequencies. These are significant benefits to the consumer as increased connectivity improves the quality of air services.

There was also an increase in private sector participation in the industry. Fifty three more private airlines had been established between 2002 and 2006 in eight (8) countries; passenger and cargo traffic increased by 48.5% and 8.8% respectively between 2002 and 2006.

4.4 Region's Potential

The Study also took into consideration the latent potential of the region in terms of air transport development. In this regard, the region provides ideal conditions for strong growth in air transport. Long distances and slow development in alternative surface transport make air transport the most reliable means of travel. For example, air transport is the only mode of travel between Luanda and Kinshasa; neighbouring Capitals separated by about 500 kilometres.

Another factor is the absence of an alternative regional hub to Johannesburg. Currently most intra SADC travel is routed through this single hub which does not provide 100% same day connections. Potential exists for the development of a second hub to decongest Johannesburg and achieve a wider spread of services and benefits including same day connections. There is also potential to build alternative national hubs away from capital city airports to tourist and other commercial centres. In addition, the low per capita income of most SADC citizens has previous constrained the growth of air transport in the region and continent. Currently cross border trade and travel is by way of unreliable but affordable ground transport. Potential exists for the introduction of low cost carriers between capital cities which are generally centres of population concentration to provide affordable air services to this market segment. There are also no direct air services between most capital cities and major population centres in the region. Indeed, air connectivity looks to have a significant latent opportunity in some of these areas.

4.5 Cost of Liberalization

It is clear from the above that there are considerable potential benefits that Member states and the region stand to gain from full YD implementation. However there is also a cost to liberalization. There is price to be paid for to gain the desired benefits. In this regard Liberalization would probably have an adverse effect on state owned national airlines that have not been able to position themselves to compete in a liberalized marketplace. National governments and the airlines themselves will have to invest heavily in fleet acquisition and modernisation programs. Airlines will have to devise competitive strategies including forging alliances which are critical for the operation in a liberalized environment. In this regard they will have to invest in safety improvement programs and upgrade their standards of service to internationally recommended practices. Otherwise these airlines will have little chance of remaining in business. The consequences of their demise will be loss of jobs and diminished national airline industry capacity.

Liberalization would also have significant impact on infrastructure and safety. The anticipated increase in traffic that could result from liberalization will have to be accompanied by upgrading of the infrastructure and improvement of safety. Therefore, governments will have to invest in the expansion and rehabilitation of airport infrastructure and navigation equipment. Another area is that of capacity building and training for staff to manage the liberalization environment. There will be need to strengthen the capacity of the civil aviation authorities in the economic, technical, safety, security and other fields. Investment in the hospitality industry will also have to be prioritised. New hotels have to be built to provide additional hotel rooms to cater for the expected increase in tourist arrivals.

4.6 Connectivity Assessment

In order to measure the level of connectivity among the studied countries, an analysis of the existent available capacity was carried out. The analysis was performed per route, out of each main city of the countries analyzed in this study.

Capacity was used instead of actual traffic, since the objective was to compare the installed offered by each airline into each one of the routes. The capacity offered is the direct consequence of the prevalent policies.

Capacity information was obtained from the Official Airline Guide for all flights covering the relevant routes. The selection considered all scheduled flights identified by the name of the carrier that actually operates the flight. This prevents double counting by omitting flights that are also published under an additional code-sharing name (for marketing purposes).

All figures quoted are for total seats offered on a weekly basis, and are used only for the purpose of analysis of the relative share, for airlines and routes. The data-set obtained contains information necessary to allow analysis of capacity in terms of seats or frequencies, by airline, destination airport and by country or region.

The study was carried out by following an analysis by country, for which the capacity share by destination and the major local airlines were observed. The purpose was to identify the level of connectivity, which results from the existent policy and the capability of the national carriers to develop their networks.

5. ANALYSIS BY COUNTRY

The regulatory and institutional developments and other arrangements outlined above provided the context for assessing YD impact in the seven sample States. A review and analysis of the findings from these countries are summarized below.

5.1 ANGOLA

5.1.1 Institutional Arrangements

In Angola, an overview of the potential impact of YD implementation was provided in consultations with the following:

- National Institute of Civil Aviation
- ENANA -The body responsible for the management of airports
- TAAG – Angola Airlines, and
- Ministry of Tourism

5.1.2 National Institute of Civil Aviation

The National Institute of Civil Aviation is an autonomous Authority under the Ministry of Transport. It concentrates the functions of policy making including economic regulation and technical regulation of civil aviation (safety and security oversight). It also operates the air navigation services.

The Institute is headed by a Director General and is organized in the following departments:

- Safety and Security.
- Economic Regulation
- Air Navigation Services
- Corporate Services

The Institute had just been reorganized and as a result some roles were still new. It also suffers from a general shortage of manpower particularly qualified safety inspectors.

5.1.3 ENANA

ENAMA is a State run parastatal body under the Ministry of Transport. It is responsible for the management of airports in the country. There are a total of twenty five (25) airports all under the management of ENANA. Luanda airport is the official airport for international scheduled services.

5.1.4 Airport Infrastructure

Like other States in the region, airport infrastructure in Angola is inadequate. For instance, Luanda airport does not have the optimum capacity to handle current traffic. Increased traffic resulting from liberalisation will be a further strain and challenge on the existing infrastructure. Runways and terminal facilities at the airport are inadequate. In addition, air traffic control facilities and air navigation equipment are deficient and cannot handle increased aircraft movement. Personnel are also not adequately trained to efficiently handle current and expected increased traffic. There is therefore a clear need for infrastructure development requiring heavy investment at a high cost to the national treasury and probably at the expense of other equally deserving national projects. Infrastructure development will also have to go hand in hand with capacity building and with liberalization. The Angolan government has however, demonstrated a commitment to see these programs through. In this regard, a new airport is under construction 40 kilometres South of Luanda to address some of the infrastructure problems. There are also plans to upgrade facilities at existing service providers.

5.1.5 TAAG – Angola Airlines

TAAG is the national carrier of Angola. There are however, eighteen (18) commercial airlines. Only TAAG is allowed to perform international scheduled services. Air Gemini provides scheduled domestic services. The rest are non scheduled operators.

5.1.6 Air Transport and Tourism

Consultation with the Ministry of Tourism established that there were about 200, 000 international arrivals in 2007 supporting about 70,000 jobs. The government has also finalised a Tourism Development Plan for the period 2009 to 2013. The main objective of the Plan is to achieve a target of 500,000 tourist arrivals by the end of that period.

Currently, the government and other sector stakeholders have also put in place strategies to achieve this objective. These include investing in human resource development and training. In addition, more hotels are being built to address the crippling shortage of hotel rooms, a major constraint for tourism development in Angola

Air transport also has an important role to play in promoting the tourism sector. However, air services and air lift capacity are woefully inadequate. There are no enough airline seats for tourists and most tourist resorts are not accessible by air.

Implementation of the liberalization program is expected to address the constraints associated with air transport. Improvement in the quality and quantity of air transport services could drastically improve the fortunes of the tourism sector. Towards this end, the introduction of charter flights was strongly recommended. However, the implementation of this program must go hand in hand with improvements in the airport infrastructure to achieve the desired outcome.

5.1.7 State of Liberalization

Angola is a prime candidate for liberalization that would open up the market to unleash the potential of the country and in turn that of the region as it is one of the few markets that are still

restricted. The market operates in a regulatory environment governed by traditional BASAs with stringent restrictions on frequency and capacity as well granting of the 5th freedom rights. As a result it is capacity constrained due to exclusion of competition on major routes. The country still retains the single designation regime that does not allow multiple designations. Capacity and frequency are predetermined. Airlines do not have the commercial freedom to increase frequency or add capacity. For instance there are only twelve services on the busy LAD-JNB route when demand is for double or more capacity. Tariffs are still regulated and governed by the traditional double approval tariff clause

Various factors contribute to this state of affairs. These include the Economic Limitation Law which was enacted in April 2002. This law has a large bearing on the liberalization process as it restricts operations of international air transport services to a public enterprise which in this case is TAAG. Under this law, TAAG is mandated to negotiate and conclude agreements with foreign operators. The airline determines which competitor to enter the Angolan market and the level of such access. In short, this piece of legislation confers upon the national carrier, the veto power on market entry by foreign or private operators. This law has to be changed to facilitate YD implementation. Initiatives are however, under way to change the law in line with the expressed commitment by Authorities to open up and implement YD. Accordingly, proposals have been submitted by the CAA to government to have this law amended or repealed altogether. However, other constraints and challenges were pointed out that have to be overcome before contemplating implementation in addition to those imposed by the limitation of economic activities law. These include:

5.1.7.1 National Airline

The national airline is weak. In its current state, the carrier and by extension the State cannot effectively participate and benefit from liberalization. TAAG has to be strengthened first in preparation for YD. According to the authorities, the airline must be strengthened and brought up to a level of its competitors before opening up to increased competition expected to be unleashed by YD implementation.

Towards this end, the government is investing heavily in the airline. Among other things, it is funding the acquisition of a new fleet by TAAG. The government expects to recover this investment before contemplating YD implementation. In addition, there is an ongoing process of internally improving the company in terms of safety. In this regard TAAG was to undergo an IOSA audit in November 2008 having done a pre audit the previous year.

5.1.7.2 Inadequate airport Infrastructure

The airport infrastructure is inadequate. Terminal facilities at the main service provider in Luanda cannot handle current traffic flows. There are inadequate aircraft parking slots. It will be impossible to liberalise in these conditions.

However, the government is constructing a new airport forty (40) Kilometres Luanda. The airport when commissioned in two to three years is expected to have adequate facilities to handle anticipated traffic. Only then can the market be fully opened up.

5.1.7.3 Civil War

Angola was at war for over two decades. For this reason it was not possible for the government to create conditions for liberalization or to open up the country to facilitate YD. The process of creating the enabling legal and regulatory framework started only after the cessation of hostilities in 2002

5.1.7.4 Command Economy

Historically the economic system of Angola has been that of a command economy. The country is now in transition to a market economy incorporating liberalization in the provision of services. Air transport liberalization has to make the transition at the same pace as the rest of the economy.

In light of the above YD implementation will require a 100% transformation of the legal and regulatory frame work. It will also require a radical transition from the command economy mode to that governed by market forces.

5.1.8 Airline Market Outlook

Airlines

Angola is served by eighteen (18) local airlines. Seventeen (17) are private non scheduled operators except for Air Gemini which is also a scheduled domestic operator. Only TAAG is allowed to perform scheduled international services. Consultations were held with senior management of the airline.

The following nine foreign operators serve Angola:

- Aeroflot (SU).
- Air France (AF)
- Air Namibia (SW)
- British Airways (BA)
- Brussels Airline (SN)
- Ethiopian airlines (ET)
- Lufthansa (LH)
- South African airway (SA), and
- TAP-Air Portugal (TP)

Within the studied region, Angola is served by 4 international carriers to 3 destinations in the South African Development Community (SADC). The following table depicts the routes originating in Angola.

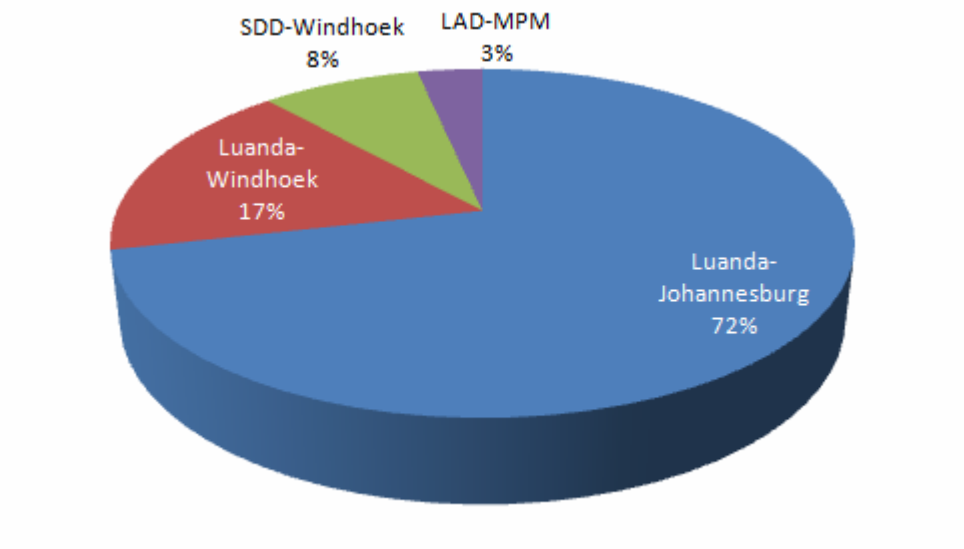
Routes Served From Angola – within the studied region

	Origin	Destination	Country	Carriers
1	Luanda	Johannesburg	South Africa	TAAG, SAA
2	Luanda	Maputo	Mozambique	TAAG, LAM
3	Luanda	Windhoek	Namibia	TAAG, Air Namibia
4	Lubango	Windhoek	Namibia	TAAG

Source: Official Airline Guide
Note: SAA: South African Airways, LAM: Linhas Aéreas de Moçambique

Angola's most important link within the SADC is Johannesburg, as seen in the following graph

Seat Capacity Share from Angola, by City Pair

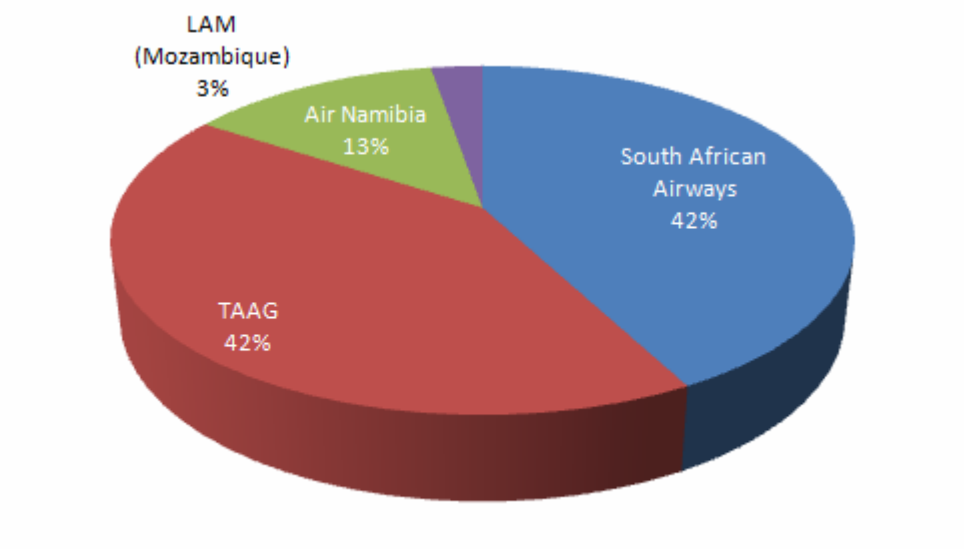


Source: prepared by the consultant with information from the Official Airline Guide
Note: SDD: Lubango, LAD: Luanda, MPM: Maputo

Almost three quarters of the international capacity between Angola and countries in the SADC is deployed to Johannesburg, while Windhoek receives 25% (from Luanda and Lubango). Maputo is the smallest market with a mere 3% capacity share. It stands out that Luanda is mainly connected to the rest of Africa through Johannesburg, either by SAA as by TAAG.

The analysis of the capacity share by airline is consistent with the distribution by market, as can be seen in the following chart.

Seat Capacity Share from Angola, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide

South African Airways (SAA) is the largest carrier from Angola to countries in the SADC with a 42.2% capacity share, which is not surprising when considering that Johannesburg concentrates almost 75% of the available seats. TAAG comes close after SAA with a 41.9% share, followed by Air Namibia and LAM with 13.1% and 2.7% respectively.

SAA controls a larger share of the Luanda-Johannesburg market than TAAG, which is evidenced by the fact that the former only operates this route, while the latter, with a slightly smaller capacity share, also flies to Windhoek (from Luanda and Lubango), and Maputo.

5.1.9 Major Airlines

TAAG Angola Airlines

Transportes Aéreos de Angola (TAAG) is the only international scheduled carrier based in Angola. The company is 100% state owned, with a fleet of 12 aircraft.

TAAG Fleet

	Aircraft Type	Quantity
1	Boeing 737-200	3
2	Boeing 737-700	4
3	Boeing 747-300	2
4	Boeing 777-200	3

Source: http://www.airfleets.net/flottecie/TAAG%20Angola%20Airlines.htm

The airline's fleet is a mixture of current generation aircraft such as the 737-700 and 777-200 and older equipment, such as the 737-200 and 747-300. The average age for current generation aircraft is under 2.5 years, while older aircraft types are 21.7 (747's) and 27.5 (737's) years old.

TAAG serves 14 international destinations, 10 in African and 4 intercontinental.

Regional Destinations

	Country	Destination	SADC
1	Cape Verde	Sal	
2	Congo	Brazzaville	
3		Pointe Noire	
4	DR Congo	Kinshasa	
5	Ghana	Accra	
6	Mozambique	Maputo	▪
7	Namibia	Windhoek	▪
8	Sao Tome and Principe	Sao Tome	
9	South Africa	Johannesburg	▪
10	Zimbabwe	Harare	

Source: http://www.airlineroutemaps.com/Africa/Taag_Angolan_Airlines_1.shtml

Intercontinental Destinations

	Country	Destination
1	Brazil	Rio de Janeiro
2	France	Paris

	Country	Destination
3	Portugal	Lisbon
4	United Kingdom	London

Source: http://www.airlineroutemaps.com/Africa/Taag_Angolan_Airlines_1.shtml

As seen in the previous table there are only direct fights to the capitals of Mozambique, South Africa and Namibia, with no service whatsoever to Botswana, Madagascar or Tanzania. All the routes from Luanda are served by TAAG and the carrier from the destination country, while the service Lubango-Windhoek is operated solely by TAAG.

Most of the regional destinations are north of Luanda, while only 3 are located within the SADC. As for intercontinental destinations, TAAG flies to Rio de Janeiro in South America, and Paris, Lisbon and London in Europe.

TAAG operates a total of 27 frequencies to African destinations out of which 14 are to only four SADC countries. The one frequency to Harare, Lusaka and Maputo does not serve the consumer adequately well as one frequency is as good as no frequency. The other point to note is that the services to West African points are operated with 5th freedom traffic rights, an indication of the potential that the liberalization of these rights has of improving linkages in the region and the continent in general.

On a decision dated on November 14 2008, the Directorate-General for Energy and Transport from the European Commission extended a ban on TAAG (from July 2007) to all carriers certified by the authorities with responsibility for regulatory oversight of Angola, from flying over European Union (EU) airspace. TAAG resumed services to Europe shortly after the ban was put in place, with two Boeing 747-400 wet-leased[2] from South African Airways. These aircraft are not subject to the ban since the crews, aircraft and maintenance are certified by the South African authorities.

5.1.10 Conclusions

The combined operations of TAAG and foreign airlines show that Luanda is served by a total of fifty one (51) frequencies, out of which 37 are within the SADC region. The operations also indicate that they are strictly based on reciprocity as provided in traditional bilateral air service agreements. As a result capacity is constrained as it is not demand driven but predetermined by TAAG in line with the Limitation of economic activities law. For example it is difficult to get a seat on the LAD-JNB sector as it is severely underserved. The combined ten flights are not adequate given the ever increasing business and other ties between Angola and South Africa. Liberalization would provide airlines the freedom to add capacity based business consideration

TAAG's position is that YD will impact positively on the airline in a number of areas. For example, the airline is already benefiting from the prospects of liberalization as it is largely responsible for the airline's improvement programs. It is investing heavily in people and equipment to reposition itself to respond to the competition challenge. As a result the airline is more efficient and shaping up to be a competitive outfit. A strong revamped TAAG also plans to expand its services in the region and beyond. Increased operations will mean additional revenue for the airline and improved sustainability.

Private sector participation and investment in the industry will also increase thereby benefiting the wider economy. Liberalization will also allow local private operators to enter the international market providing more services. Foreign private operators particularly from South Africa would be designated to operate international services.

[2] Wet-leasing refers to a leasing arrangement where one airline (acting as the lessor) provides an aircraft, crew, maintenance and insurance.

However, to ensure effective equitable distribution of benefits and TAAG' effective participation, YD implementation should be gradual to allow it complete its restructuring program. A 'big bang' approach would force many small airlines out business. In this regard, the starting point should be with cargo operations and non scheduled services. For scheduled services the approach could be a gradual increase in frequency. A gradual approach would ensure that legitimate interests are protected. It is also expected that the law of limitation will have to be removed when the country is ready to implement the liberalization program. However, this should be replaced with an appropriate body comprising all stakeholders, including TAAG, to regulate competition and supervise entry of foreign operators in the market. It is suggested in this respect that Angola be requested for a timetable for this action for achievement within a fixed maximum period.

In summary, TAAG's position is that liberalization must ensure protection of national airline as private airlines are only for profit. They have no national interest to serve. This position on the role of the private airline in our view is contestable as there are many private airlines in world aviation that contribute to the growth of their nation's economy and provide services in the national interest. The EU experience shows the benefits of liberalization with the doubling of passenger traffic within five years, all in the interest of EU States. The same is bound to happen for SADC states if protectionism is discarded and liberalisation is implemented in line with the decision of the Ministers.

5.2 BOTSWANA

5.2.1 National Air Transport Policy

The national air transport policy is still in a draft form. It has not been formally adopted as its adoption is tied to the privatisation of Air Botswana.

5.2.2 Legislation – Air Botswana Act

The government has in place legislation which gives the monopoly to Air Botswana, the national carrier, to operate air services to/from and within the country. The Air Botswana Act which was enacted in 1988 precludes licensing of any local airline in the country to operate commercial air services. This is considered a major impediment to the liberalisation process.

5.2.3 Institutional Arrangements

In Botswana, the Department of Civil Aviation, a government department within the Ministry of Works and Transport is responsible for the overall administration of civil aviation. The department is also responsible for the administration and management of all airports in the country.

The civil aviation administration in the country is however, currently being reorganised. Plans are at an advanced stage to create an autonomous Civil Aviation Authority to operate on commercial basis. The Authority is expected to be established before the end of 2009. When established it will take over the responsibility for civil aviation administration from the government department. The Chief Executive, his Deputy and other key staff have already been recruited.

5.2.4 State of Liberalisation

As is the case with other countries, bilateral air services agreements govern air transport relations between Botswana and SADC States as well as with third countries. The country has concluded 15 such agreements, 10 of which are with SADC Member States. However, only three; with Namibia, South Africa and Zimbabwe, are being exploited while the rest are dormant. Most of these bilateral

agreements have not been revised and aligned with YD market access provisions. They retain restrictive provisions such as single airline designation and do not also allow 5th freedom.

The restrictive BASAs coupled with the monopoly enjoyed by the national carrier under the Air Botswana Act, make Botswana a fairly restricted market. The domestic market has also not been liberalised as only Air Botswana is allowed to operate scheduled domestic services. However, the country has liberalised its agreement with South Africa virtually creating an open skies market between the two countries. The revised agreement with South Africa provides for multiple designations, multiple entry points and unrestricted capacity and frequency. Botswana has also revised BASAs with Zambia and Zimbabwe to provide for multiple entry points while retaining the single designation regime.

5.2.5 Airline Market Outlook

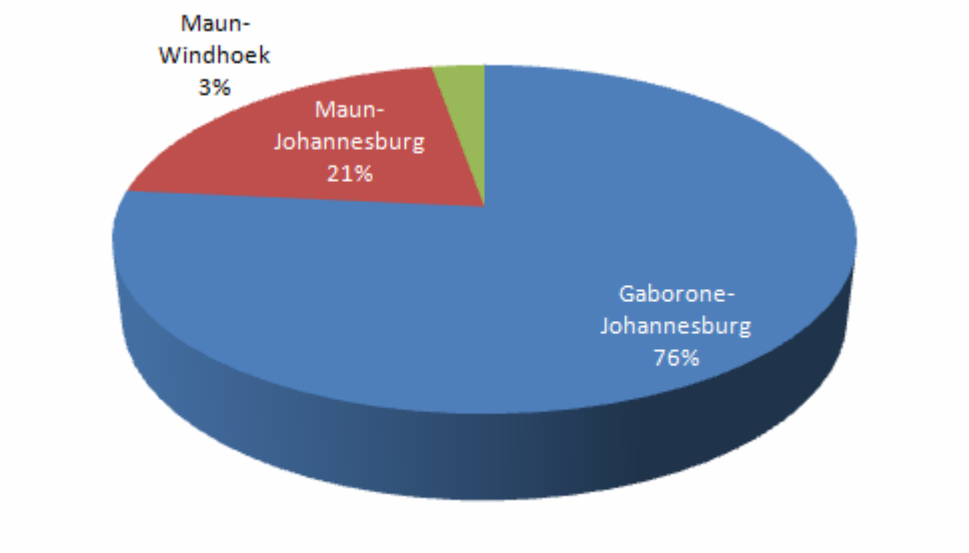
Botswana is connected to the SADC by 3 airlines operating 3 routes to 2 destinations

Routes Served From Botswana

	Origin	Destination	Country	Carriers
1	Gaborone	Johannesburg	South Africa	Air Botswana, SAA
2	Maun	Johannesburg	South Africa	Air Botswana
3	Maun	Windhoek	Namibia	Air Namibia

Source: Official Airline Guide
Note: SAA: South African Airways
Johannesburg the only destination served from Gaborone and also the sole market operated by Air Botswana within the SADC, resulting in a high degree of capacity concentration.

Seat Capacity Share from Botswana, by City Pair

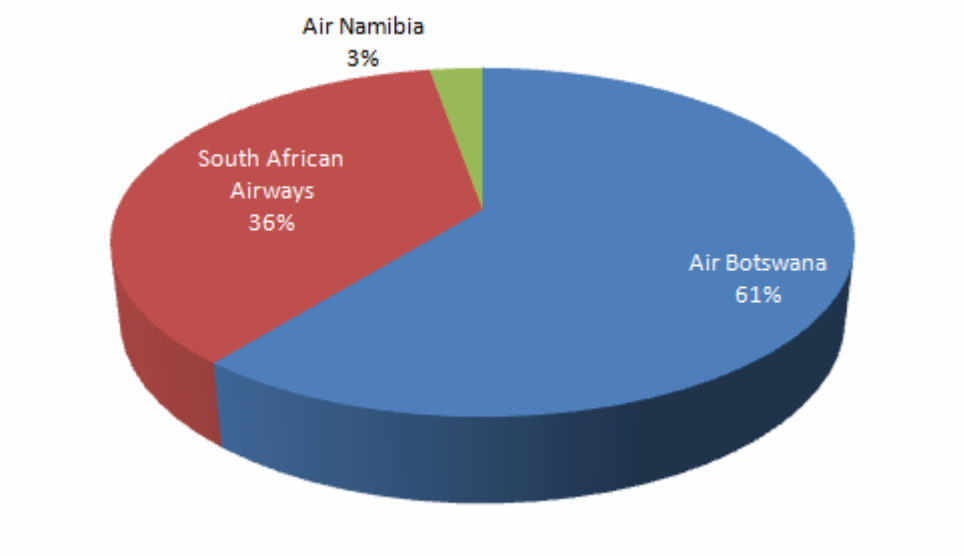


Source: prepared by the consultant with information from the Official Airline Guide

Johannesburg concentrates 97% of the available seat capacity, while Windhoek (served from Maun) holds only 3%. Both Gaborone and Maun have non-stop services to Johannesburg. The first city accounts for as much as 76% of the available capacity, and is operated by Air Botswana and SAA, while the second only receives service from Air Botswana.

As opposed to Angola, where a foreign carrier controls a larger capacity share than the local airline, Air Botswana holds the largest share of the available seats, at least to SADC countries.

Seat Capacity Share from Botswana, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide

Air Botswana's capacity share is over 60%. It is slightly ahead of SAA on the Gaborone-Johannesburg route in terms of seats offered, and is the only airline operating between Maun and South Africa's capital. SAA comes second with 36% of the available seats, and Air Namibia is far behind, with 3% of the capacity (consistent with the share of the Maun-Windhoek route, where it is the only carrier).

5.2.6 Major Airlines

5.2.6.1 Air Botswana

Air Botswana was created by the government in 1988 to succeed Botswana Airways, which had been operating unprofitably until then. After a failed attempt to privatize the carrier in 2007, the Government decided to keep the airline state-owned.

The fleet is composed by 5 regional aircraft.

Air Botswana Fleet

	Aircraft Type	Quantity
1	ATR 42	3
2	British Aerospace BAE 146	2

Source: http://www.airfleets.net/flottecie/Air%20Botswana.htm

The ATR 42's are used in domestic routes, while the BAE 146's are deployed to international destinations.

Both international destinations are within Africa, as the airline does not operate routes beyond the continent.

Regional Destinations

	Country	Destination	SADC
1	South Africa	Johannesburg	▪
2	Zimbabwe	Harare	

Source: Air Botswana

Air Botswana flies to Johannesburg, both from Gaborone and Maun, and also to Harare in Zimbabwe.

5.3 MADAGASCAR

5.3.1 Institutional Arrangement

Madagascar is a member of two regional economic groupings; COMESA and SADC. In line with the common objective of progressive harmonization and integration of their air transport polices and regulations, the two groupings have agreed a common approach on air transport liberalization. Accordingly, the legal and institutional framework for YD implementation in Madagascar consists of:

a. Community institutions established at the level of COMESA and SADC with community-wide application;
b. National institutions, laws and regulations, bilateral and multilateral air services agreements

At Community level, these institutions include the COMESA Council of Ministers, the Air transport Board (ATRB) and the Joint Competition Authority (JCA). The SADC arrangements include the Council of Ministers, the Civil Aviation Committee (CAC) and the Regional Competition Authority (RCA). SADC has also established a Steering Committee to supervise YD implementation.

It is clear from the above that, considerable effort has been made to put in place, at regional level, arrangements to facilitate the liberalization process.

At national level, the Ministry of Transport is responsible for the policy definition and ensures control of results. Accordingly, it has in place an Action Plan for the period 2005 to 2012. Among other things, the Plan includes the following policy objectives to be attained within this timeframe:
a. Upgrade selected airports to international service levels to provide direct services to tourist rather than through Antananarivo Airport.
b. Facilitate liberalization/open skies policy
c. Develop and upgrade key transport interfaces as airport
d. Commence rehabilitation to remote airstrips to form a network in isolated rural areas.
As for strategies, the Ministry of Transport, the Civil Aviation Authority and other institutions are in charge of realizing these objectives.

5.3.2 Civil Aviation Authority (CAA)

In 1999, the Malagasy Government created an autonomous Civil Aviation Authority (CAA). In 2004, the code of civil aviation was reviewed. The code vests overall responsibility for implementation and application of civil aviation policies and functions in the Authority. Among other things, it provides the enabling legislation for implementation of air transport liberalisation. Towards this end, the CAA is responsible for both technical and economic regulation of air transport.

The CAA is headed by a Director General and overseen by a Board of Directors. It comprises mainly Aerodromes, Air Navigation, Air Transport, Safety and Security, Administration, Finance. The Authority is also responsible for the coordination and implementation of national aviation policies.

5.3.3 State of Liberalisation

The Malagasy Government has, as a matter of policy, identified tourism development as a basis or main instrument of economic development of the country. Air transport liberalization is one of the instruments to achieve this objective. For this reason the government has enacted enabling legislation to facilitate the liberalization process. In addition, the Government with the support of cooperating partners is carrying out major airport improvement program to rehabilitate and upgrade their capacity to handle increased traffic movements. Domestic air transport services have also been liberalized. Air Madagascar, the national airline, is being strengthened to prepare it for liberalization.

The country is ready and geared towards implementing the liberalization program. However; YD implementation will be of limited extent as there are very few air links between Madagascar and main land Africa. The other factor concerns the state of Air Madagascar, the national carrier. The airline has yet to position itself to operate and survive in an environment of increased competition. It is being restructured to make it competitive. The government, by far the majority shareholder (90%) has recapitalized the airline and renewed its fleet. The airline is also investing heavily in human resource development and training. These investments are expected to bear intended results in the next two years. It is then that Madagascar will be in a position to implement YD in full.

Madagascar is also revising a number of bilateral agreements to achieve a degree of liberalization. It was expected to hold consultation with South Africa which is becoming very important business partner in order to align the existing BASA between the two countries with YD provisions. Madagascar has also concluded a BASA based on YD provisions with Senegal to provide for 5th freedom. Outside the continent, the country has signed an Open Skies agreement with the USA under this agreement; Northwest Airlines of the US operates code share services with Air France.

5.3.4 Airport Infrastructure

Aeroports de Madagascar (ADEMA) a private company created in 1991 runs twelve airports as commercial entities. These twelve airports are:

1. Antananarivo – Ivato Internacional
2. Antsiranana-Arrachart International Airport - Diego
3. Nosy Be – Fascene International
4. Sambava
5. Mahajanga - Philibert Tsiranana International
6. Sainte Marie
7. Morondava
8. Fiaranantsoa Beravina
9. Toliara
10. Tolagnaro International
11. Mananjary
12. Toamasina - D'Ambalamanasy

ADEMA provides Air Navigation Services to the nine airports and ASECNA provides this service to the three international airports namely; Antananarivo, Toamasina and Mahajanga. The current infrastructure is not adequate to handle increased traffic. However a major expansion and rehabilitation program is under way involving all the international airports.

A development Plan covering the period 2008 to 2020 has been drawn for Antananarivo Ivato. The plan involves extension of the runway, aprons and improvements in the taxiway system. There are also plans to refurbish the terminal building. The initial investment for Ivato is estimated at US$133million. The government is expected to provide 50% of the funding while cooperating partners have pledged to provide the balance.

There are also plans to upgrade Antisiranana and Toliara and other regional airports, which handle direct international traffic. This is aimed at improving the level of service at main tourist destinations.

5.3.5 Air Transport and Tourism

As already indicated, the government policy is to develop the tourism sector as the basis of economic development. Accordingly, the following targets have been set for the industry:

- To reach 500,000 arrivals in 5 years from the current 300,000.
- To increase tourism receipts by 40% by 2011.
- Increase direct jobs by 62% to 40100 by 2012.

Air transport is one of the instruments to be used to achieve these targets. In light of this, the government has embarked on air transport liberalization to improve the delivery of air services to better serve the tourism sector. Towards this end, the domestic air transport has been liberalized allowing private airlines to be established and operate services to various domestic points. A massive improvement of airport infrastructure is also underway. In addition, private companies are now responsible for the running and management of airports

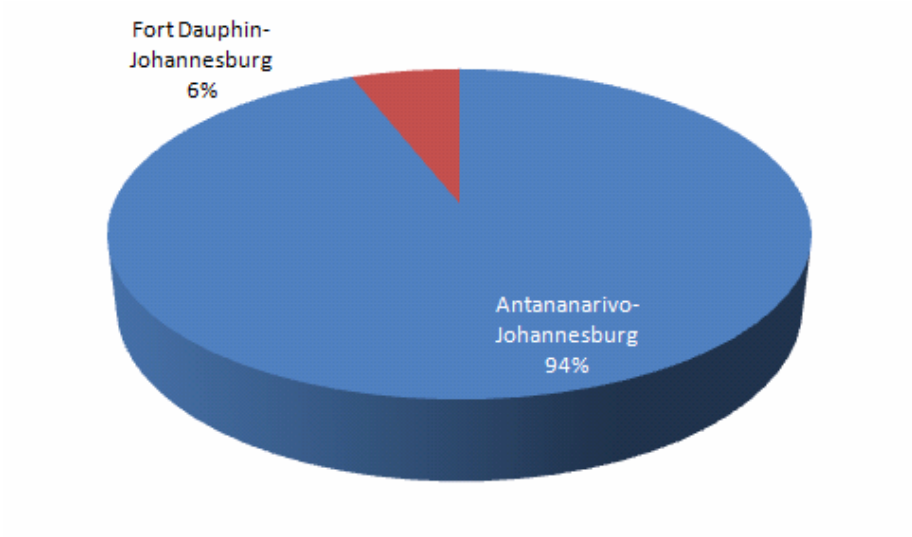
However, despite the fact that the existing liberalized BASA allow foreign airlines to increase their frequencies and capacity, these airlines base their operations on considerations in the marketplace. In order to meet the set sector objectives, Madagascar is now intensifying the promotion of the country.

It is against this background that YD implementation will provide a big boost in traffic increase. As an indication of things to come, the tourism industry has been registering a steady annual growth of about 10% in arrivals since limited implementation in 2002.

5.3.6 Airline Market Outlook

Madagascar's only connection to the SADC is South Africa, as seen on the following graph.

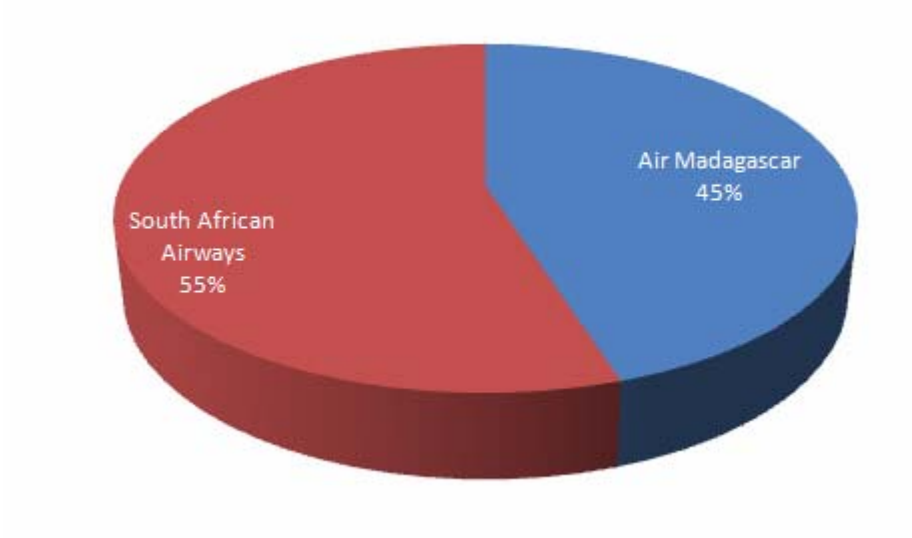
Seat Capacity Share from Madagascar, by City Pair



Source: prepared by the consultant with information from the Official Airline Guide

Johannesburg concentrates 100% of the seat capacity from Madagascar and is mainly flown from Antananarivo, although SA Airlink operates a weekly flight from Fort Dauphin. Passengers travelling between Madagascar and other countries in the SADC must do so through Johannesburg, adding time and inconvenience to their journeys. Air Madagascar operates a flight to Nairobi, but Kenya's geographical location is not convenient for onward connections from Madagascar to the south of Africa. Only Air Madagascar and SA Airlink operate between Madagascar and other countries in the SADC.

Seat Capacity Share from Madagascar, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide

Despite the fact that the BASA between the two countries allow each country to operate 14 frequencies a week (this number may be increased if necessary), with any type of aircraft, in September 2008, between Antananarivo and Johannesburg

- Air Madagascar, flies only an average of two weekly frequencies.
- While SA Airlink operate 6 frequencies with a regional aircraft of 100 seats.

5.3.7 Major Airlines

Since the YD limited implementation, eight new airlines have been licensed to operate commercial services in Madagascar, namely;

1. Air Transport Transit Regional
2. Hazovato
3. Insolite Travel Fly
4. Madagascar Trans Air
5. Madagascar Helicopter
6. Sky Services
7. Trans Ocean Airways
8. Trimeta Air Services

Seven are private airlines operating charter flights and one operating domestic regular flight.

Air Madagascar, the national carrier, is the major local operator licensed to operate international scheduled air services. The government holds 89.56% of shares in the company while 10.44% are held by private investors

Air Madagascar operates services in Eastern and Southern Africa. It also operates scheduled services in the Asia Pacific and Europe. In this respect the airline in summer 2008, operated 4 and 2 frequencies to Paris and Milan respectively. It also operates two services to Bangkok. In Africa the airline has three weekly frequencies to Johannesburg and two to Nairobi. It also operates five frequencies to Mauritius and a daily flight to Reunion, and has some flights to Comoros.

The airline is allowed to charge market fares on international flights. As for domestic services the government needs only to be informed.

Air Madagascar has not forged a major or fundamental alliance mainly because of its size. However, it has code share agreements with Air Astral and Air Mauritius. It also code shares with SA Air Link and Thai Airways on the Johannesburg and Bangkok sectors respectively. The airline also plans to enter into alliances with Kenya Airways and Ethiopian Airlines.
Air Madagascar

There are 9 regional and jet aircraft in the fleet, as seen in the following table.

Air Madagascar Fleet

	Aircraft Type	Quantity
1	ATR 42	3
2	ATR 72	2
3	Boeing 737-300	2
4	Boeing 767-300	2

Source: Air Madagascar

Air Madagascar serves several regional and intercontinental destinations, as seen on the following tables.

Regional Destinations

	Country	Destination	SADC
1	Comoros	Moroni	
2	Kenya	Nairobi	
3	Mayotte	Dzaoudzi	

	Country	Destination	SADC
4	Republic of Mauritius	Mauritius	
5	Réunion	La Réunion	
6	South Africa	Johannesburg	▪

Source: Air Madagascar

Intercontinental Destinations

	Country	Destination
1	France	Marseille
2		Paris
3	Italy	Milan
4	Thailand	Bangkok

Source: Air Madagascar

Only two out of six regional destinations are located in mainland Africa (and only one - Johannesburg- belongs to the SADC), while the remaining four are French territories or former colonies in the Indian Ocean, off the eastern cost of the continent.

The carrier flies to 4 intercontinental destinations: Paris and Marseille in France (being a former French territory, the country has strong economic and cultural links with France), Milan in Italy and Bangkok in Thailand.

5.3.8 Foreign Airlines

Six foreign airlines operate into Ivato airport. They consist of two SADC, one other African and three European carriers. The airlines are:

1. Air France
2. Air Mauritius
3. Comoros Aviation
4 Corsair
5. SA Air Link
6. Air Austral

The six airlines operate about twenty three weekly frequencies. Out of the two SADC airlines, only SA Air Link may be in a position to add to its current 7 frequencies. Air Mauritius may not take advantage of YD as the government of Mauritius has opted out of the program. There are also opportunities for foreign carriers that are in alliances with African carriers. Air France in particular may take advantage of its co-membership with Kenya Airways in the Sky Team to add to its seven weekly frequencies and expand into other markets.

An increase in the quantity of air services by any operator will be a tremendous boost to the tourism industry and will be in line with the government policy to develop the sector using the instrument of air transport. However, the national airline may not immediately benefit from opportunities available in a liberalized marketplace.

With regards to full YD implementation, Air Madagascar's position is that it does not have the capacity as yet to participate and benefit from a liberalized environment as envisaged by full application of YD provisions particularly as they relate to free granting of traffic rights including unrestricted 5th freedom. It does not have the fleet and adequately trained manpower to participate

and benefit from the process in the immediate future. Only strong foreign airlines particularly those from South Africa are likely to benefit from the process.

5.3.9 Conclusions

The study findings for Madagascar include the following.

1. The Government has prioritized tourism as one of the economic growth sectors that can help achieve growth in the economy. Air transport has been singled out as an important factor in achieving this objective. However, there are insufficient flights to cater for tourism. In summer 2008, only 4 airlines operate scheduled international services to Madagascar. Consequently, the country has decided to adopt air transport liberalization policy to address this inadequacy and sufficiently support the tourism sector. In this regard, the government is taking measures to prepare for full liberalization

2. The country has adopted the civil aviation code; an enabling legislation for liberalization. The government has also allowed private companies to manage airports.

3. Four airports have been designated to handle scheduled international services. The country has also embarked on a massive airport expansion program to expand capacity to handle expected increased traffic. This is in light of current infrastructure deficiencies.

4. Domestic air transport has been liberalized and since 2002 eight new private airlines have been established to serve the domestic market.

5. The government is investing in Air Madagascar, the national airline to prepare it for liberalization as it currently does not have the capacity to compete in a full liberalized marketplace. YD should therefore be affected only after the airline is ready and positioned to take on the competition. It is suggested in this respect that Madagascar is requested to provide a timescale of a fixed period within which to prepare the airline for liberalisation.

6. The government has signed the Open Skies Agreement with the USA. However, no US airline operates direct services to Madagascar. Northwest Airlines operates in alliance with Air France.

7. YD implementation in Madagascar would have limited impact on the region and continent due to its limited air links with main land of Africa.

5.4 MOZAMBIQUE

5.4.1 Institutional Arrangements

The Mozambique regulatory framework is based on traditional bilateral air services agreements that still retain restrictions on market access rights. Restrictions have not been lifted to allow granting of 5th freedom rights. The BASAs also retain restrictive provisions on frequency and capacity.

However, the government has gradually moved towards liberalization. The state-owned domestic airline, LAM Mozambique Airlines, previously had a monopoly in both the domestic and international markets. In 2002 the domestic market was partially liberalized, allowing smaller private airlines to start flying domestic routes.

YD implementation will be a big leap from this restrictive regulatory environment to an open and liberalized regime. It will also result into removal of protection currently being enjoyed by the national carrier .and opening up the market for competition.

5.4.2 National Air Transport Policy

The country has in place an air transport policy. However, details of the policy were not made available. The policy will have to be published and made available to ensure that it is in harmony with YD implementation as agreed by the region.

The Ministry of Transport is responsible for air transport policy formulation, coordination and direction. The Instituto de Aviaçao Civil de Moçambique (Mozambique Civil Aviation Institute - IACM) is the technical regulator, responsible for safety and security oversight, a department within the orbit of the Ministry of Transport.

Responsibility for infrastructure operations remains with Aeroportos de Mocambique (ADM).

In all of its bilateral agreements, Mozambique designates Linhas Aéreas de Moçambique (LAM) as the national flag carrier and the only one entitled to represent the interests of the country. Still state-owned, LAM enjoys strong protection, formal and otherwise, from policymakers. Formally independent of the government, LAM lacks proper separation from the institutions that define sector policy. IACM, for example, considers the well being of LAM a “matter of national interest” and executes policy accordingly.

In effect, Mozambique’s formal policy and civil aviation institutional framework combine to protect LAM. The IACM severely restricts the market access of carriers that could represent some kind of competition with LAM. As implemented, policy restricts entry and operation in the international market and partially restricts entry and operation in the domestic market. IACM has also been using technical regulations to protect LAM.

The IACM is not autonomous as Mozambique has not carried the necessary reforms to create an autonomous aviation authority. As a result, the Institute in its current form does not have the capacity to effectively perform its functions as regulator particularly with respect to safety oversight. It lacks the financial independence since it does not have adequate financial resources to fund its activities including recruitment of critical skilled personnel such as airworthiness inspectors. The Institute only retains 17% of the revenue generated from services such as aircraft certification fees. The rest is surrendered to the national treasury.

In addition to lack of financial and management autonomy, the operations of the Institute are constrained by high tax rate and customs duty rate calculated at 2.5% for imports making unaffordable essential purchases of fuel and equipment for operations.

Legislation has not been put in place to create an autonomous body to be responsible for policy making, including economic regulatory aspects of air transport. It is important to separate and streamline regulatory functions including air transport liberalization to be placed under an autonomous body independent from the Institute.

5.4.3 Airport Infrastructure

ADM operates the ten main airports of the country. International flights operate to Maputo, Beira, Nampula, Vilankulus, Inhambane and Pemba. However, Maputo is the major airport for international scheduled operators. All Mozambique airports have inadequate infrastructure. For example, terminal facilities for international services, including departure, arrival and transit areas for passengers and cargo at Maputo, the major international service provider for international operators, are inadequate. However, a modernization project is under way for which a Chinese investor will build a new terminal building and cargo facilities.

5.4.4 Airline Market Outlook

Mozambique is connected to 5 destinations in the SADC, with flights departing from Maputo and other international airports. The following table shows the routes linking Mozambique.

Routes Served From Mozambique

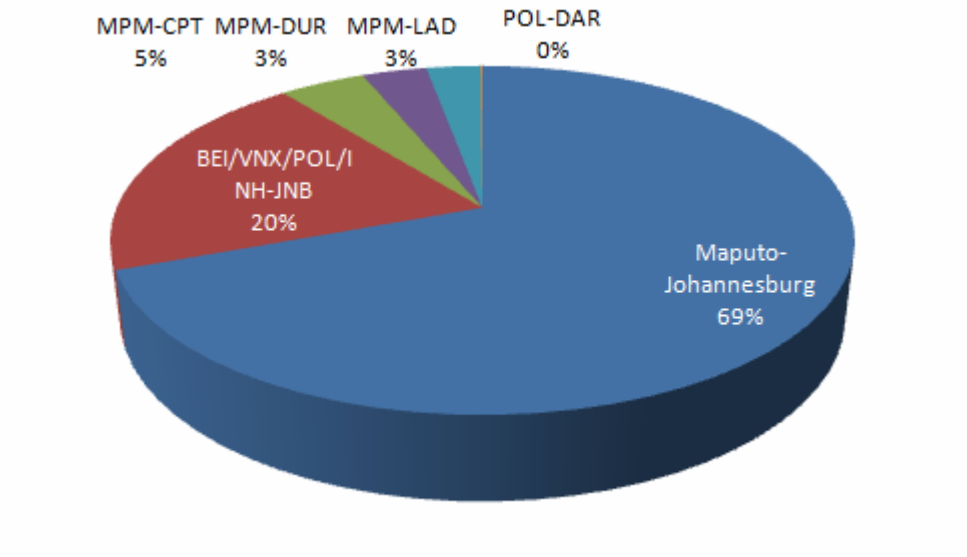
	Origin	Destination	Country	Carriers
1	Maputo	Cape Town	South Africa	SAA
2	Pemba	Dar es Salaam	Tanzania	LAM
3	Maputo	Durban	South Africa	LAM, SAA
4	Beira	Johannesburg	South Africa	LAM, SAA
5	Maputo	Johannesburg	South Africa	LAM, SAA
6	Inhambane	Johannesburg	South Africa	LAM
7	Pemba	Johannesburg	South Africa	SAA
8	Vilanculos	Johannesburg	South Africa	Pelican Air
9	Maputo	Luanda	Angola	LAM✈, TAAG

Source: Official Airline Guide
✈The flight to Luanda is not published in LAM's schedule
Note: SAA: South African Airways, LAM: Linhas Aéreas de Moçambique

As well as with previous countries South Africa is the main market, but besides Johannesburg (which has non-stop flights from 5 cities), Mozambique is also connected to Cape Town and Durban. In addition to several alternatives on flights to South Africa, there are direct services to Dar es Salaam and Luanda, but it is remarkable that with 9 different routes to the SADC, Mozambique is connected to only 3 countries.

Capacity distribution by city pair is shown on the following graph.

Seat Capacity Share from Mozambique, by City Pair



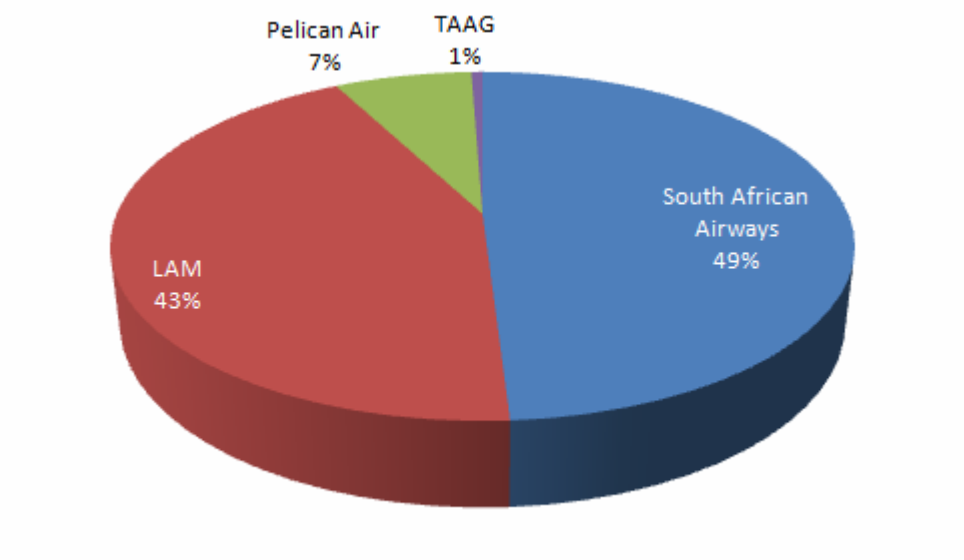
Source: prepared by the consultant with information from the Official Airline Guide
Note: BEI: Beira, VNX: Vilanculos, POL: Pemba, INH: Inhambane, JNB: Johannesburg, MPM: Maputo, CPT: Cape Town, DUR: Durban, LAD: Luanda, DAR: Dar es Salaam

Capacity is heavily concentrated on the Maputo-Johannesburg corridor, with a 69% share of the total seats departing Mozambique. When adding flights from Vilanculos, Beira, Pemba and

Inhambane, Johannesburg's share leaps to over 89%, emphasizing the importance of this market within the SADC. Johannesburg is also the only destination with more than daily frequencies; services to other destinations in South Africa, Angola and Tanzania are operated with less than 7 weekly flights.

Linhás Aéreas de Moçambique (LAM) and South African Airways are the 2 biggest carrier in terms of capacity, between Mozambique and the SADC.

Seat Capacity Share from Mozambique, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide

SAA holds almost half of the seat capacity from Mozambique, even more than LAM (43%). Both airlines offer almost exactly the same number of seats on the Maputo-Johannesburg route (around 81,000 per year), indicating possible restrictions derived from the ASA between both countries.

5.4.5 Major Airlines

There are 7 local airlines licensed to operate commercial services in Mozambique. Six are private airlines and operate domestic and charter services. LAM – Mozambique, the national carrier is the major operator of international scheduled services. The Government holds 80% of the shares of LAM and 20% is held by employees.

5.4.5.1 Linhas Aéreas de Moçambique (LAM)

The company was created in 1980, when it succeeded the defunct DETA (Direcção de Exploração de Transportes Aéreos). It remained state-owned until 1998, year in which it was transformed into a limited liability company[3], with the state holding an 80% stake and the remaining 20% held by the employees. LAM operates a fleet of 6 aircraft under the main airline, and another two under its subsidiary Mozambique Express (MEX):

LAM Fleet

Aircraft Type	Quantity
Boeing 737-200	4
JetStream 41	2

[3] Sociedade Anónima de Responsabilidade Limitada

	Aircraft Type	Quantity
	Q400 Bombardier	2 ✈

Source: LAM
✈ on service by MEX (LAM's subsidiary & feeder)

Both the narrow-bodies (737-200) and the regional (Jet Stream 41) aircraft are used in domestic and international routes. The average age is over 20 years for both aircraft types.

In addition, the airline operates two Q400s on domestic routes, through its subsidiary and feeder Mozambique Express (MEX).

LAM operates scheduled services in Southern Africa and to Lisbon in Portugal. Maputo/Johannesburg is the airline's main international route and major market. It is the airline's lifeline. It operates 6 frequencies on the sector. It also operates 3 frequencies each to Dar es Lam and Harare. Through MEX, LAM operates flights to Dar es Lam.

LAM serves 4 regional destinations, and also offers services to Lisbon in Portugal which are flown by TAP (the airlines have a code sharing agreement where LAM is the marketing carrier and TAP is the operating carrier)

Regional Destinations

	Country	Destination	Frequency.
1	Kenya	Nairobi	
2	South Africa	Durban	▪
3		Johannesburg	6
4	Tanzania	Dar es Salaam	3
5	Zimbabwe	Harare	3

Source: LAM

Although most regional destinations served by LAM (3 out of 4) are located within the SADC, it is still serving just two SADC countries, without direct services to Angola, Botswana, Madagascar and Namibia.

Seven foreign airlines operate into Mozambique out of which 5 are SADC carriers, one African and one European airline. SADC carriers include South African Airways which operates 6 JNB/MPM frequencies and South African Air Link with 3 weekly services on JNB/MPM/BEW sector without 5th freedom. The other South African operators are Executive Turbine and Pelican with services into Lanceria/ Vilankulo and JNB/ Vilankulo respectively. Precision Air of Tanzania is the other SADC operator which operates 3 times into Pemba International airport. Kenya Airways with 3 weekly services into Maputo is the only African airline outside SADC operating into Maputo while TAP of Portugal, is the lone European operator into Mozambique with 4 LIS/MPM/LIS frequencies.

5.4.6 Conclusions

Mozambique continues to restrict its international air transport markets by continued use of restrictive bilateral air service agreements. The rationale for this policy is to protect the national airline by restricting competition, in particular on the MPM/JNB route, the national airline's mainstay. Only 2 airlines are allowed to be designated to operate the route with each restricted to six weekly frequencies.

The continued restriction on competition is justified by the concern that the national airline does not have the capacity to effectively participate in a liberalized and more competitive market. Its fleet is old and has limited financial resources. Removing restrictions on the MPM/JNB route in particular and opening up the international market in general would expose the carrier to competition from well resourced and subsidised airlines particularly from neighbouring South Africa[4]. This would certainly drive it out of business and cease to exist as has happened elsewhere where full liberalization has been implemented. The demise or closure of LAM would result in loss of jobs. In addition tourism would suffer as only a strong national airline is capable of genuinely promoting local tourist destinations.

It was also recognised that restricting international routes artificially reduced the number of tourists visiting Mozambique, and that the costs of supporting the national airline outweighed the benefits of liberalization in terms of job creation and economic growth. However, t was argued that, tourism growth would not reach its full potential in the near future due to insufficient hotel beds to accommodate the anticipated increased tourist arrivals. Liberalization and promotion of tourism had therefore to go hand in hand with improving facilities in the hospitality industry. This would enable the country to fully exploit and benefit from the country's huge tourism potential.

Therefore the demise of LAM would only benefit foreign airlines. Consumers would benefit from an initial reduction of fares. Ticket prices would rebound upwards following the exit of local as an increase in services on a route does not lead to lower fares if a monopoly was providing the services.

In summary, the following were established:

1. The regulatory framework is restrictive and based on existing BASAs. Competition on international market is restricted. For example only two airlines can serve the capacity constrained MPM/JNB route. The 2 designated airlines are restricted to six frequencies each.

2. Institutional arrangements in terms of the regulatory function are inadequate The IACM is not autonomous as Mozambique has not carried the necessary reforms to create an autonomous body to carry out policy making, independently from the technical regulator. As a result, the Institute in its current form does not have the capacity to effectively perform its functions as regulator particularly with respect to safety oversight.

3. The Authority lacks financial independence and resources to operate effectively and efficiently. It does not have adequate financial resources to fund its activities including recruitment of critical skilled personnel such as airworthiness inspectors.

4. There is no enabling legislation for the creation of an autonomous civil aviation body.

5. The airport infrastructure at Maputo airport, the major service provider for scheduled international scheduled services is inadequate. Considerable investments are needed to expand and upgrade terminal facilities, in order to cope with anticipated increase in traffic while providing an acceptable level of service.

6. The domestic market has been liberalized allowing private sector participation.

7. There is concern that full YD implementation may lead to the demise of LAM the national airline resulting in loss of jobs. Only foreign airlines will benefit. The consumer is unlikely to benefit from lower fares as this will lead to a monopoly situation. Tourism will also suffer as only a strong national airline is capable of promoting local tourist destinations.

[4] See Annex The Mozambique Case

8. Against the above background, the overall conclusion and recommendation was a step by step approach or gradual implementation of YD to achieve the regional liberalisation objectives.

5.5 NAMIBIA

5.5.1 Institutional Arrangements

The ministry of Transport is responsible for policy formulation and direction. It is also responsible for economic regulation which includes airline licensing and negotiating bilateral and multilateral agreements. The liberalization process is under the Ministry although the Department of Civil Aviation (DCA) shares some responsibility for the process as a government department in the Ministry. However, roles are expected to be clearly defined after the restructuring program.

The (DCA) is responsible for Safety, Security and Air Navigation Services. It is also responsible for aerodromes and airfields that are not under the Namibia Airports Company (NAC). The DCA is not an autonomous entity but a Government department under the Ministry of Works and Transport. However, the civil aviation administration in the country is currently being reorganized and restructured to create an autonomous Civil Aviation Authority to operate on commercial basis with financial independence. An autonomous Authority will require trained and skilled staff to adequately carry out enhanced functions that will include economic regulation and the liberalization process.

The Namibia Airports Company (NAC), a 100% State Owned Enterprise was established in line with the Airports Act, of 1998. It commenced operations in February 1999. It is responsible for the acquisition, establishment, development, provision, maintenance, and management, control of operation in accordance with sound principles of an aerodrome or airport.

5.5.2 State of Liberalization

The Namibia perspective of YD implementation was similar in most key aspects to that of stakeholders in other States. For example, air transport relations with other countries are governed by bilateral air services agreements. These bilaterals are restrictive in most ways and are not in line with YD principles. As an example, the country maintains the mono designation regime as the country claims that it cannot support more than one scheduled international carrier due to limitations within the industry. Granting of traffic rights, in particular the fifth freedom is still restrictive as is the case with capacity and frequency. As a consequence, liberalization in the spirit of YD has not taken place.

5.5.3 Airport Infrastructure

NAC owns and manages the following eight (8) airports:

- Hosea Kutako International Airport (Windhoek).
- Eros Airport
- Walvis Bay airport
- Luderitz Airport
- Keetmanshoop Airport
- Ondangwa Airport
- Rundu Airport, and
- Katima Mulilo Airport

Hosea Kutako International Airport (HKIA) is situated 45 km east of Windhoek; is the designated international airport. The airport handles over 500,000 passengers annually and over 14.000 aircraft movements. HKAI has daily connections to Johannesburg, Cape Town and frequently to

Luanda. The scheduled airlines calling at the airport are Air Namibia, South African airways, LTU International airlines, TAAG Angola, South African Express (Pty) Ltd, British Airways and Air Botswana

These airlines connect HKIA to international hubs such as Frankfurt, Düsseldorf, London Gatwick and regional destinations including Victoria Falls in Zambia.

As is the case in other states, the airport infrastructure is inadequate. For example, HKIA cannot cope even with current traffic and domestic services. YD will attract more international services putting a further strain on customs, immigration, and airport terminal facilities. However, expansion and rehabilitation programs are in place at all major airports in Namibia. Towards this end, rehabilitation of the runway at HKIA is underway.

5.5.4 Air Transport & Tourism

The number of tourist arrivals has been increasing steadily. In 2006 half a million (500,000) international tourists visited the country. This number rose to over 800.000 in 2007. Although exact figures were not available, this growth trend is posed to be accelerated by the implementation of YD.

5.5.5 Market Outlook

Namibia is connected to 5 destinations in 3 SADC countries. The following table shows the existing routes.

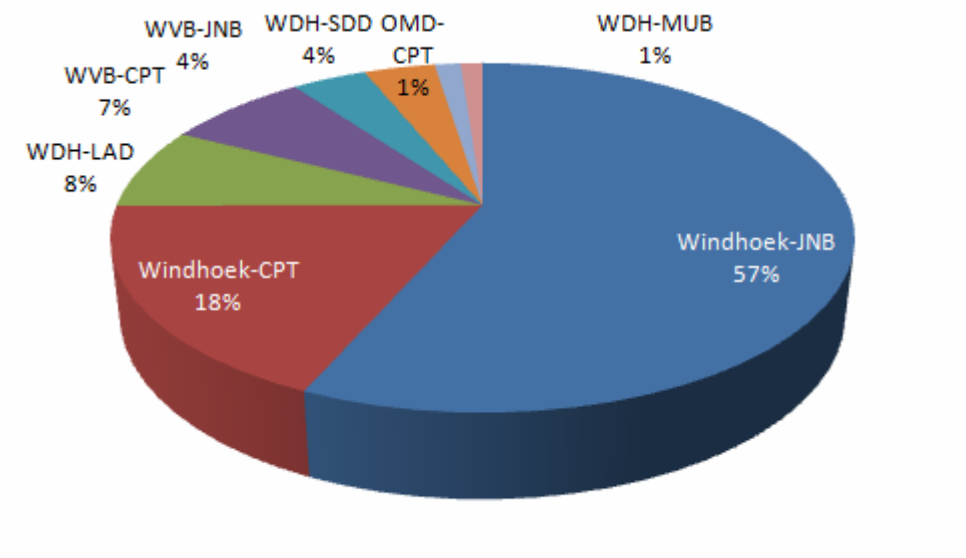
Routes Served From Namibia

	Origin	Destination	Country	Carriers
1	Oranjemund	Cape Town	South Africa	Air Namibia
2	Walvis Bay	Cape Town	South Africa	Air Namibia, SAA
3	Windhoek	Cape Town	South Africa	Air Namibia, SAA
4	Walvis Bay	Johannesburg	South Africa	SAA
5	Windhoek	Johannesburg	South Africa	Air Namibia, Comair, SAA
6	Windhoek	Luanda	Angola	Air Namibia, TAAG
7	Windhoek	Lubango	Angola	TAAG
8	Windhoek	Maun	Botswana	Air Namibia

Source: Official Airline Guide
Note: SAA: South African Airways

There are 5 routes between Namibia and South Africa, 2 to Luanda and 1 to Botswana, with no direct flights to other countries in the SADC. Windhoek-Johannesburg is the most important route in terms of capacity.

Seat Capacity Share from Namibia, by City Pair



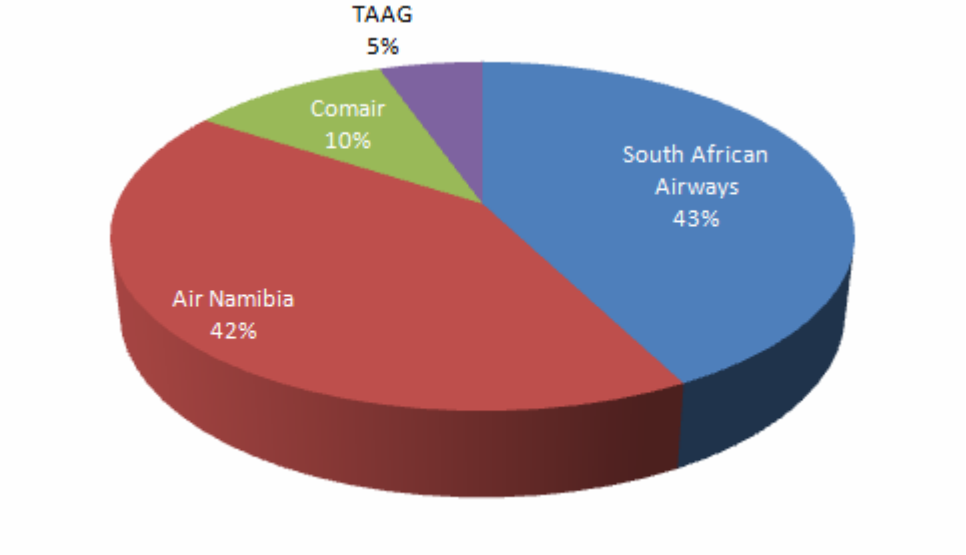
Source: prepared by the consultant with information from the Official Airline Guide
Note: JNB: Johannesburg, CPT: Cape Town, WDH: Windhoek, LAD: Luanda, WVB: Walvis Bay, SDD: Lubango, OMD: Oranjemund, MUB: Maun

Over 55% of the seat capacity is allocated to the Windhoek-Johannesburg route. When adding flights originating in Walvis Bay the share jumps 61%, and if flights to Cape Town are accounted, South Africa concentrates 87% of the available capacity from Namibia.

Flights to Johannesburg and Cape Town are operated with at least daily frequencies, while services to Angola (Luanda or Lubango) and Botswana receive, on average, less than once a day.

South African Airways is the largest airline flying between Namibia and destinations within the SADC.

Seat Capacity Share from Namibia, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide

South African Airways holds a 43% capacity share, and is closely followed by Air Namibia, with 42%. Comair and TAAG are far behind, with 10% and 5% respectively.

5.5.6 Major Airlines

There are three active Namibian air operators. These are

- Air Namibia.
- Bay Air
- West Air.

Bay Air and West Air are Private airlines while Air Namibia is government owned. Bay Air and West Air operate domestic and charter services. Bay Air also operates daily scheduled cargo services to Johannesburg. Air Namibia is the only operator designated to operate international scheduled passenger services. Accordingly, the mission consulted with the airline's management.

Air Namibia (SW)

The company known today as Air Namibia was founded in 1946 under the South West Air Transport name. It changed its name to Namib Air in 1978, and was acquired by the government in 1982. The airline remains state-owned until now. It operates a fleet with wide-body, narrow-body and regional aircraft.

Air Namibia Fleet

	Aircraft Type	Quantity
1	Airbus A340-300	2
2	Boeing 737-500	2
3	Beech 1900	3

Source: Air Namibia (http://www.airnamibia.com.na/fleet.php)

SW operates services in Southern Africa and Europe. It flies fourteen (14) and eleven (11) times to Cape Town and Johannesburg respectively. It also operates three weekly frequencies to Luanda. The European services are five (5) and two (2) frequencies to Frankfurt and London respectively. The Airbus A340's are deployed on European markets, while the Boeing 737's and Beech 1900's are used in domestic and regional routes. The company serves 5 regional and 2 intercontinental destinations.

Regional Destinations

	Country	Destination	frequency
1	Angola	Luanda	3
2	Botswana	Maun	varies
3	South Africa	Cape Town	14
4		Johannesburg	11
5	Victoria Falls	Zimbabwe	varies

Source: Air Namibia

Intercontinental Destinations

	Country	Destination	frequency

	Country	Destination	frequency
1	Germany	Frankfurt	5
2	United Kingdom	London	2

Source: Air Namibia (http://www.airnamibia.com.na/info_service.php)

Four out of five regional destinations are located within the SADC, but even still, there is no service whatsoever to Madagascar, Mozambique or Tanzania. Intercontinental destinations include Frankfurt in Germany and London in the United Kingdom.

Air Namibia currently enjoys protection from open competition provided by bilateral air service agreements. Indeed, the airline and the aviation authorities consider it to be small and weak requiring some form of protection to remain in business. With regard to YD, the view is that the airline does not have the resources and capacity to participate and benefit fully from operating in a liberalized environment. It will be difficult for it to compete on frequencies and capacity that competitors may introduce. Only airlines with resources and in global alliances are therefore likely to reap the full benefits of YD. The concern in this regard is that increased competition will drive out Air Namibia from lucrative international markets such as the WDH-JNB route leaving it to serve only domestic routes. The fear is that this may lead to its demise as domestic operations are unprofitable and cannot sustain an airline. This in turn may put at risk domestic air services that depend on the national carrier. The departure of SW will deny access to remote areas of the country which will in turn put at risk domestic air services that depend on the national carrier. This will be against national interests and would be socially and politically unacceptable for a vast and sparsely populated country like Namibia. For these reasons Air Namibia does not considers YD to be of benefit to countries with small / weak airlines like Namibia but is regarded as the YD implementation.

However, the airline concedes that YD could also open opportunities for the carrier to realise its expansion plans within the region which have to some extent been derailed by the current restrictive regulatory regime. For instance, SW has applied for 5th freedom rights on JNB-FIH and LAD-FIH sectors without success. These are capacity constrained routes desperately in need of additional capacity. The Angola, DRC and South African authorities have not granted the request by Namibia on account that existing BASAs do not provide for such rights. Angola has also declined an application for increase in frequency on WDH-LAD route.

In addition, it is the general view that liberalization resulting in an increase in services would stimulate and increase traffic. Airlines, airports and the country as a whole will benefit from this development. YD will also compel airlines such as Air Namibia to invest more on equipment and technology to uplift safety and service standards to be more competitive in the liberalized marketplace. This of course will mean additional cost for the airline. It is also expected that YD will improve regional linkages considering that 60% of Africa cannot be accessed by air.

5.5.7 Conclusions

The basic objectives and ideals of YD are acceptable and worth pursuing. However, a ‘big bang’ implementation without transition to allow adequate preparations would only benefit States with strong carriers. A trade off is therefore required so that the wider and long term benefits of YD are secured while ensuring that the interests of ‘small states’ are protected. Therefore it was recommended as follows:

Few small African airlines are in partnership with their strong African counterparts. The big airlines instead aspire to join ‘elitist’ Alliances such as Star alliance or Sky Team. The starting point for YD should therefore be for the strong to partner with small airlines on international routes. Entering into code share arrangements would be an important first step. However, the small airlines would have to do their part by improving service standards, in particular seeking and obtaining IATA/ ICAO

safety compliance. This requirement could be incorporated into the regional implementation package of YD.

Support the Competition Authority with adequate capacity to determine and punish anti-competitive practices would be another important step. This is important as most small carriers do not have the means or the resources to successfully investigate and prosecute carriers that may be engage in practices such as capacity and fare dumping.

It may be necessary to review YD to include areas such as aircraft licensing and establishing a common licensing Authority with the competence to issue SADC airline license. African States also need to further express themselves with regard to relations with other states or third countries. This is to guard against such countries taking unfair advantage of the SADC liberalized single market.

5.5.8 Recommendations

There is no doubt that full liberalization will bring tremendous benefits to the country. It will increase frequency to the country and improve connectivity. It will create opportunities for Air Namibia and other local airlines to open new markets. This will benefit the airlines, the public and the wider economy as air linkages will improve and increase. It is safe to conclude therefore that benefits will outweigh deep rooted perceptions of disadvantages associated with negative impact of liberalization. The process must therefore be affected in such a way to mitigate the negative consequences while enjoying the full benefits of liberalization.

In light of the following implementation approach could be considered:

Alliances **–** Strong airlines from South Africa should enter into alliance with local airlines particularly the national carrier. Some international routes e.g. WDH-JNB could be operated by an SW/SA partnership. It is odd that SW does not have any partnership with a South African carrier despite the close commercial, trade, historical and cultural ties between the two countries.

The approach to this type of partnership will have to be structured rather than left to chance. It will require some form of government and regulatory intervention. The intervention will include putting pressure on local airlines to address any safety and security concerns. The airlines will have to take measures aimed at satisfying IATA/ICAO safety compliance standards.

It is appreciated that alliance building should be based on business considerations. It is also appreciated that this approach may be inconsistent with the spirit of competition espoused by YD. However, successful implementation is much a higher goal to aim for. This will prevent a situation where SA will be the sole international airline in SADC creating a monopoly to the disadvantage of the industry and the consumer.

Quota System **–** It is also proposed that a quota system should be considered to be embedded into the implementation mechanism. Among other things, this could include quota in frequencies and capacity. For example, that a certain percentage of frequency must be in partnership with a local carrier for an initial or transitional period of say two years. This will provide some regulatory comfort and ease implementation while taking everybody on board.

However, during this transition period the national or local airline must commit itself to a restructuring program to be more competitive to be able to enter into any alliance in its own right.

In summary the findings are:

1. Namibia does not have an autonomous Civil Aviation Authority. It is a government department in the Ministry of Works and Transport. However, the civil aviation administration is currently

being reorganised. Legislation has been proposed to allow for the creation of an autonomous Authority.

2. The Department of Civil Aviation is responsible for the liberalization process. Its capacity is accordingly being upgraded under the restructuring program to undertake this responsibility.

3. Currently, Namibia‘s air transport relations with other States are governed by bilateral air Service agreements. The bilaterals are restrictive in most ways and are not in line with YD principles. For example, Namibia maintains the mono designation regime.

4. Namibian airports are run and managed by the Namibia Airport Authority (NAC), an autonomous body established by an Act of parliament. .NAC manages 8 airports including HKIA, the major international airport.

5. Airport infrastructure is inadequate. The international airport cannot handle current and anticipated traffic. However, major rehabilitation and expansion programs are underway in preparation for expected growth in air traffic activities.

6. Namibia does not expect full participation and direct benefit from YD as its national airline does not have the capacity to take advantage of opportunities available in liberalization. There is concern that YD implementation may adversely impact on the state owned airline eventually driving the carrier out of business impacting negatively on the provision of domestic services.

7. YD however, will also present growth opportunities for Air Namibia, the national carrier. It could expand its operations into capacity constrained markets in the region.

8. As for the pace of implementation, the stakeholders are of the view that implementation should be gradual and through Government sponsored and regulated partnerships between foreign and local airlines. A quota system in frequency and capacity allocation is also recommended for an initial or transitional period of about two years.

5.6 SOUTH AFRICA

The Republic of South Africa is the largest air transport market in the region and in Africa. It has three top ranked international airports in the world and the largest airline in Africa. The country accounts for more than seventy per cent of air transport activities in SADC and by extension in COMESA. For this reason, South Africa is a key factor in determining the impact and direction of YD implementation in the region

5.6.1 Institutional Arrangements

The following eight institutions are responsible for different aspects of the civil aviation administration and regulation in the country:

1. The Department of Transport (DOT)
2. The South African Civil Aviation Authority (SACAA)
3. Airports Company of South Africa (ACSA)
4. Air Traffic and Navigation Services (ATNS)
5. The Competition Commission of South Africa
6. Air Services Licensing Council (ASLC)
7. International Air services Council ((IASC)
8. The Regulating Committee of South Africa

Department of Transport

The Department of Transport in the Ministry of Communications and Transport is responsible for policy formulation and direction. DOT is also responsible for economic regulation including the liberalization process. The Department negotiates all agreements including bilaterals air services agreements. It is also responsible for licensing of foreign and domestic operators through the International Air Services Council and the Air Services Licensing respectively.

South African Civil Aviation Authority

The South African Civil Aviation Authority was established by an Act of parliament No. 40 of 1998. It is the Safety Regulator for South Africa and is responsible for the implementation and oversight of safety and security regulations. The SACAA has no authority on economic regulations except in an advisory capacity on technical matters.

Airports Company of South Africa (ACSA)

The Airports Company of South Africa is a public company established by the airport Company Act No. 44 of 1993. It is responsible for the management, infrastructure development and expansion of airports.

The following international airports are operated by ACSA:

- OR Tambo International Airport (ORTI)
- Cape Town International Airport (CIA)
- Durban International Airport (DIA)
- Pilanesburg International Airport

ACSA also operates the following local airports:

- Bloemfontein Airport
- East London Airport
- George Airport
- Kimberley Airport
- Port Elizabeth Airport
- Upington Airport

Other organizations involved in the administration, operation and regulation of air transport are:

Air Traffic and Navigation Services (ATNS)

ANTS was created by the Air Traffic and Navigation Services Company Act No. 44 of 1993.The company provides and manages infrastructures for air traffic services and air navigation services, It provides air navigation Providers(ANSPs) and other users with the capability to independently monitor the airspace.

The Competition Commission of South Africa

The Commission was established by the Competition Act No. 89 of 1998. It is empowered to investigate, control and evaluate restrictive business practices, abuse of dominant position and mergers in order to achieve equity and efficiency in the South African economy.

Air Service Licensing Council

The council was established by the Air Services Licensing act of 1990. The Council processes license applications for domestic operators.

International Air Services Council (IASC)

The Council was established by the International Air Services Act of 1993. IASC deals with license applications by foreign airlines

The Regulating Committee of South Africa

The Committee was established by the Airports Act of 1993. It is the economic regulator of ACSA and ATNS

Discussions were held with the Department of Transport and the South African Civil Aviation Authority. Other consultations were with Airports Company of South Africa and South African Airways (SA). Consultations were also made with the Ministry of Tourism. DoT, SACAA and ACSA provided the following assessment of air transport activities and the potential impact of YD implementation.

5.6.2 State of Liberalization

The primary purpose of South Africa's Civil Aviation Policy, is to guide South Africa's participation in the rapidly changing international aviation market. The main principles of the policy are to encourage effective competition, to safeguard national interests and to encourage South African participation in the market. The policy is aimed at encouraging competition through the implementation of the Yamoussoukro Decision, promotion of all international airports as entry points in South Africa and that third and fourth freedom rights would form the basis for negotiating the exchange of traffic rights.

Furthermore, the country has adopted a strategy for air transport liberalization and promotion of competition in support of Tourism Growth and YD implementation is seen as a key component of this strategy. In pursuit of this objective, South Africa has bilaterally liberalized air transport with a number of African States where existing bilateral air service agreements have been revised based on key elements of the YD. These countries include Botswana, Kenya, Ethiopia, Uganda, Libya, Gabon and Egypt. In the case of Botswana, the two counties have signed an open skies agreement allowing airlines to operate an unrestricted number of air services subject only to safety considerations. As for Kenya, the bilateral agreement between the two has been revised to provide for unrestricted frequency and capacity. This has facilitated the growth in air services between the two countries to over thirty (30) weekly frequencies. The country has also liberalised its domestic market.

There are however, some potential markets which are still heavily regulated and capacity constrained. The priority for South Africa is therefore is to open up these potential markets. In the same vein, it recognized that the country has to open its markets to increased air services from African States. It is in this context of opportunities and challenges that South Africa views YD Implementation

YD implementation will present to South African operators enormous growth opportunities. Most of these airlines, including the national carrier have the capacity to take advantage of these opportunities. Full YD implementation will provide them the commercial freedom to expand their operations into SADC markets that have hitherto been restricted and are capacity constrained. In this regard, countries such as Angola and Mozambique could be targeted for expansion.

However, this drive for expansion faces resistance as YD implementation has given rise to concerns that South Africa will benefit most from the regional liberalisation process due its economic muscle which it freely uses to support its airlines. For example, South African Airways, the national carrier depends on huge government subsidies and bailouts for its survival and sustainability. There are fears that South African carrier will swamp markets of small countries and

run local airlines out of business. The likely outcome will be the emergence of a monopoly thus entirely defeating the YD objective of free and fair competition. The apparent absence of a full functioning competition authority with the capacity for enforcing competition rules feeds into this fear and resistance to liberalisation.

On the other hand South Africa will also have to open up its market based on YD principles. This will include granting of 5th freedom traffic rights resulting in an increase in airline operations in the country. The opening up of the market and the anticipated increase in air traffic activities will put pressure on the airport infrastructure. Above all there is concern that this might compromise safety as some of the operators that may be granted authorisation may not be up to the minimum ICAO safety and security standards.

It is also worth noting that, according to South African law for any international Agreement or Convention to be binding on the country it must have been enacted into local legislation. YD has not been domesticated and therefore not enforceable in the country. The government will have to address this legal requirement for YD to be a legally binding and enforceable instrument with the force of law. Otherwise YD will continue to be implemented selectively within the bilateral framework.

5.6.3 Airports Infrastructure

There are nine ten international airports in South Africa all under ACSA. However, the main entry points for international services are OR Tambo International (ORTI), Cape Town International (CIA) and Durban International (DIA).The policy is to promote as many airports as possible as entry points for international services.

Like other airport authorities ACSA views YD implementations potentially beneficial to airports. The more airlines fly the more business for the airports. It will allow for introduction of new and competitive market entrants. More specifically, YD will promote the objective of transforming more airports into international entry points. It is likely that any additional services would operate from these new international airports spreading and providing more direct services for the convenience of the consumer. YD will improve daily access to international connections and increase seat capacity further consolidating the status of South African airports as international hubs. However, inadequate infrastructure and safety concerns are potential bottlenecks to smooth and effective implementation of the liberalization process.

The Airport Company of South Africa (ACSA) has put in place a development program to address the problem of inadequate airport infrastructure. In line with plan, ACSA has embarked on major expansion programs to expand and upgrade the capacity of these airports. The immediate purpose is to expand airport terminals and other facilities to cater for the expected increase in traffic as a result of hosting the 2010 Football World Cup. Towards this end, major rehabilitation and expansion works are underway at all international airports and in particular at ORTI where one billion US dollars (US$1 billion) is expected to be invested by 2010.

In addition to the infrastructure problem, there is concern that opening up the market in the manner contemplated by YD may attract operators with inadequately maintained aircraft that do not comply with IATA/ ICAO requirements. This may compromise safety requiring a more stringent safety oversight regime. It will be necessary therefore to encourage ICAO/ IATA compliance to strengthen safety/security.

5.6.4 Air Transport and Tourism

The South African Government has prioritized tourism as one of the five economic growth sectors that can help achieve 6% growth in the economy. The sector is a major contributor to job creation – the only priority sector that has grown both its Gross Domestic Product (GDP) and employment

contribution to the economy. Tourism contribution to GDP in 2007 was estimated at 8.1% with a growth of 16% from US$20.3 billion in 2006 to US$22.6 billion in 2007.Total employment in tourism rose by 5% to 941,100 jobs in 2007.

Based on this performance, growth of tourism arrivals contributes one new direct job for every 12 new tourists. Alternatively, every additional air frequency serving South Africa will support the creation of 1100 new jobs in the year that service is introduced. This underlines the important role national and foreign airlines play in transporting tourists to the country. It also highlights the importance of providing sufficient air transport capacity to all key tourism markets.

It is for this reason that the country has adopted an Airlift Strategy for the regulation of air transport in support of Tourism Growth Strategy. Air transport liberalization and in particular YD implementation is a key component of this Strategy.

5.6.5 Impediments

In the past 15 years, South Africa has seen significant tourism growth, increasing from approximately 1 million arrivals per year to more than 8.3 million arrivals in 2006: The potential for growth is unlimited. However, further growth is likely to be constrained by shortcomings in the air transport system. These bottlenecks include insufficient air services to provide the required capacity to transport tourists to the country. The few strong local airlines are not able to promote and provide access to tourist destinations. Direct services to these destinations from source markets are essential to fully exploit the growth potential. Another inhibiting factor is the high cost of travel to the country, lack of competition means that fares remain fairly high in comparison to other markets in the world.

Research conducted by the ComMark Trust (2005) confirmed the direct link between constrained routes (lack of competition) and high tariffs. South Africa Tourism's (SAT) annual brand tracking research also shows that airfares are (together with broad perceptions on safety and security issues in South Africa) the single biggest barrier to consumers considering South Africa over competitors representing a significant lost opportunity. The research has also confirmed that on average air fares represent one third of the total costs of visiting South Africa... Although tariffs are generally deregulated allowing market forces to ensure fair pricing, this has not happened as most markets are capacity constrained.

In light of this, it is the view of the tourism industry that YD implementation will transform and grow the aviation industry. The expected competition will help to bring down ticket prices making South Africa a more competitive tourist destination. YD is also expected to transform local carriers into strong airlines effectively providing capacity and access to all destinations. YD implementation at regional level is particularly important for the country considering that seventy per cent (70%) of the tourist arrivals originate from SADC countries.

5.6.6 Market Outlook

South Africa is the only country with air service to all surveyed countries in the SADC. The following table shows the routes connecting South Africa to these countries.

Routes Served From South Africa

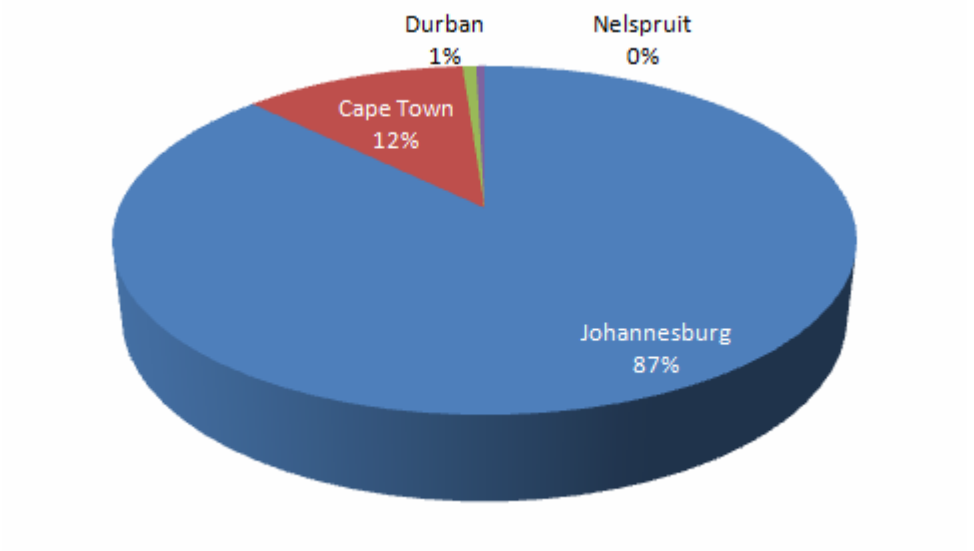
	Origin	Destination	Country	Carriers
1	Cape Town	Maputo	Mozambique	SAA
2	Cape Town	Oranjemund	Namibia	Air Namibia
3	Cape Town	Walvis Bay	Namibia	Air Namibia, SAA
4	Cape Town	Windhoek	Namibia	Air Namibia, SAA

	Origin	Destination	Country	Carriers
5	Durban	Maputo	Mozambique	LAM, SAA
6	Johannesburg	Antananarivo	Madagascar	Air Madagascar, SAA
7	Johannesburg	Beira	Mozambique	LAM, SAA
8	Johannesburg	Dar es Salaam	Tanzania	Air Tanzania✈, SAA
9	Johannesburg	Fort Dauphin	Madagascar	Air Madagascar, SAA
10	Johannesburg	Gaborone	Botswana	Air Botswana, SAA
11	Johannesburg	Inhambane	Mozambique	LAM
12	Johannesburg	Luanda	Angola	SAA, TAAG
13	Johannesburg	Maputo	Mozambique	LAM, SAA
14	Johannesburg	Maun	Botswana	Air Botswana
15	Johannesburg	Pemba	Mozambique	SAA
16	Johannesburg	Vilanculos	Mozambique	Pelican Air
17	Johannesburg	Walvis Bay	Namibia	SAA
18	Johannesburg	Windhoek	Namibia	Air Namibia, Comair, SAA
19	Johannesburg	Zanzibar	Tanzania	1time
20	Nelspruit	Vilanculos	Mozambique	Pelican air

Source: Official Airline Guide
Note: SAA: South African Airways, LAM: Linhas Aéreas de Moçambique
✈ the airline is currently grounded

South Africa's air connectivity to the SADC is well developed, with direct flights from Johannesburg to 14 destinations in 6 countries. There are also international flights from other cities, such as Cape Town, Durban and Nelspruit. Most of the traffic, in terms of destinations and also in terms of capacity, is concentrated in Johannesburg, as seen on the following graph.

Seat Capacity Share from South Africa, by City of Origin

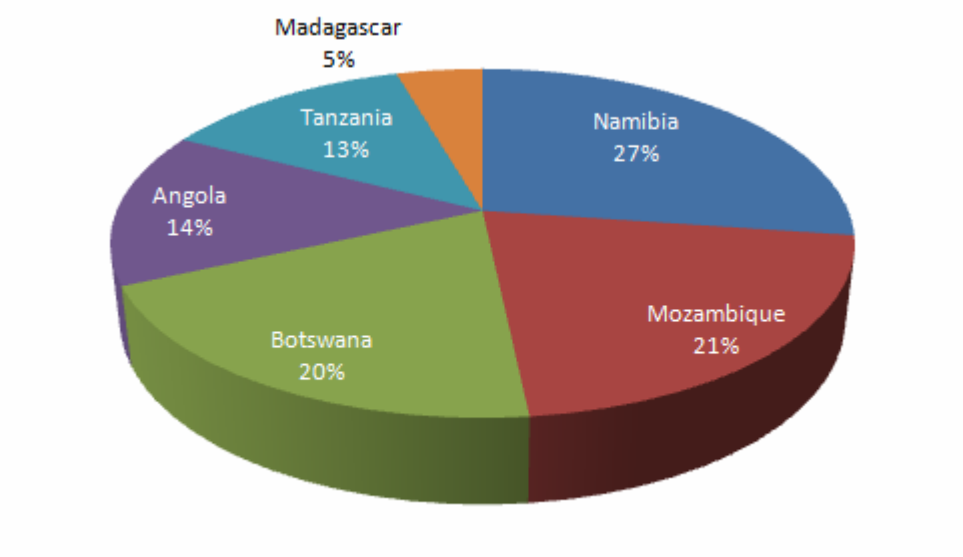


Source: prepared by the consultant with information from the Official Airline Guide

Johannesburg, with its 14 out of 20 international city pairs from South Africa, concentrates 87% of the seat capacity, followed by Durban with 12% of the available seats. Durban and Nelspruit hold 1% or less each. Both the capacity concentration and the number of routes served from Johannesburg; imply that O.R. Tambo International Airport functions as a main transit point, or hub, for the countries in the SADC region. Destinations from Cape Town on the other hand are more

limited, indicating its traffic is mainly origin/destination. International traffic from Johannesburg to the SADC is fairly balanced, as seen on the following graph.

Seat Capacity Share from Johannesburg, by Country

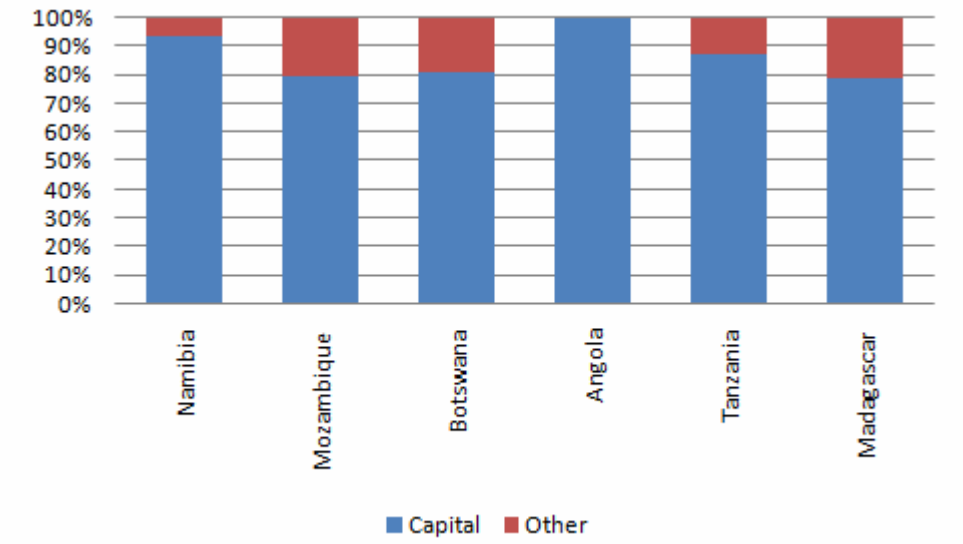


Source: prepared by the consultant with information from the Official Airline Guide

Traffic is stronger with neighbouring Namibia, Mozambique and Botswana, which hold 27%, 21% and 20% of the capacity respectively. Angola and Tanzania hold each around 14%, while Madagascar is the weakest link, with only 5% of the available seats.

Most of the capacity is deployed between capitals of the SADC countries. Only a few city pairs connect one capital and a non-capital city (normally operated with less frequency) and even less link two secondary cities.

Seat Capacity Share from Johannesburg, by Destination Type

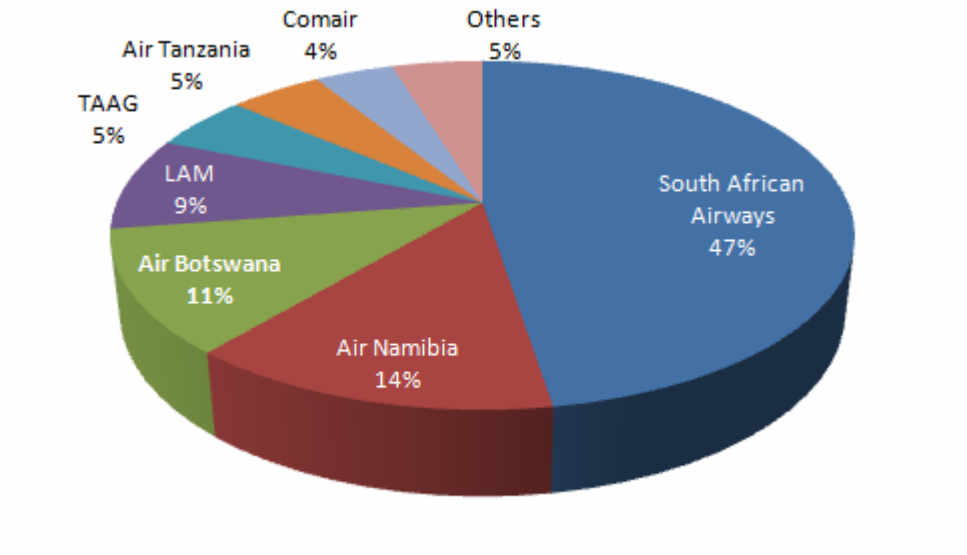


Source: prepared by the consultant with information from the Official Airline Guide

Between 80% and 100% of the capacity from Johannesburg to other countries in the SADC link the city with the capitals of the other countries (although ironically, Johannesburg is not the capital of South Africa). Traffic between secondary cities almost always involves at least one connection in the main airport of either the origin or destination countries, or more than often requires two

connections, both on the origin and destination. As for airlines, capacity is evenly distributed among local and foreign carriers.

Seat Capacity Share from South Africa, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide
Note: Others: Air Madagascar (1.8%), Pelican Air (1.5%), 1time (1.5%)

With 47% of the available seats, South African Airways is certainly the largest carrier connecting South Africa and the SADC. If the two other South African carriers are considered (Comair, Pelican Air and 1time) the share of local airlines climbs to just a little over 50%, suggesting again that, at least with some countries, capacity is severely restricted by the ASAs in order to maintain a balance between local and foreign airlines.

5.6.7 Major Airlines

1time

1time is a low-cost carrier that starter operations in 2004, and is 100% owned by 1time Holdings, a diversified aviation group with subsidiaries in the charter, maintenance and corporate aviation businesses. The airline operates a fleet of 8 MD-80 family aircraft.

1time Fleet

	Aircraft Type	Quantity
1	MD-80 family (MD-82/83/87)	8

Source: 1time

At the moment, 1time only operates to one international destination,

Regional Destinations

	Country	Destination
1	Tanzania	Zanzibar

Source: 1time

The airline flies from Johannesburg to Zanzibar, in Tanzania, with two weekly flights, on Tuesdays and Saturdays.

Airlink

The airline was created in 1995 under the South African Airlink name, incorporating a range of other airlines such as Midlands Aviation, Lowveld Aviation Services, Magnum Airways, Border Air, Citi Air and Link Airways. The company established a strategic alliance with South African Airways and South African Express in 1997. In 2006 the airline changed its corporate identity and was re-branded as Airlink. Airlink operates a fleet of 25 aircraft.

Airlink Fleet

	Aircraft Type	Quantity
1	JetStream 4100	13
2	Embraer ERJ-135	5
3	British Aerospace BAE 146-200	4
4	Avro RJ85	3

Source: Airlink (http://www.saairlink.co.za/about_us/our_fleet.php)

The JetStream 4100 (turboprop) carry 29 passengers, while the Embraer 135 (regional jet) has a 37 passenger capacity. The BAE 146 and Avro 85 are powered by 4 jet engines and boast larger capacities, of 97 and 83 passengers respectively. The route network includes 10 international destinations, all within Africa.

Regional Destinations

	Country	Destination
1	Lesotho	Maseru
2	Madagascar	Antananarivo
3		Fort Dauphin
4	Mozambique	Beira
5		Pemba
6	Swaziland	Manzini
7	Zambia	Lusaka
8		Ndola
9	Zimbabwe	Bulawayo
10		Harare

Source: Airlink (http://www.saairlink.co.za/route_network.php)

Out of 10 international destinations only 4, Antananarivo and Fort Dauphin in Madagascar and Beira and Pemba in Mozambique, are located within the SADC.

Comair

With 50 years of service, Comair entered into a franchise agreement with British Airways in 1996, and became known as British Airways Comair. Comair Limited, the parent company, remains a South African controlled corporation, and is listed in the Johannesburg Stock Exchange. In July 2001, the company created Kulula, a low cost domestic carrier wholly owned by Comair Limited. There are 19 narrow-body aircraft in the fleet.

Comair Fleet

	Aircraft Type	Quantity
1	Boeing 737-200	10
2	Boeing 737-300	3
3	Boeing 737-400	2
4	McDonnell Douglas MD-82	4✈

Source: Comair
✈ Operated by Kulula

The 15 Boeing 737's are operated by British Airways Comair, while the MD-82's are flown by Kulula on domestic routes. Besides a number of domestic destinations, the airline serves 5 international routes within the region.

Regional Destinations

	Country	Destination
1	Namibia	Windhoek
2	Republic of Mauritius	Mauritius
3	Zambia	Lusaka
4		Ndola
5	Zimbabwe	Harare

Source: Kulula

Only one destination (Windhoek in Namibia) of those served by Comair is within the SADC.

Interair South Africa

Interair South Africa, a privately owned airline based in Johannesburg, provides scheduled services within Africa and the Indian Ocean Islands. The airline operates a fleet of 4 narrow-body, previous-generation, Boeing 727 and 737 aircraft.

Interair South Africa Fleet

	Aircraft Type	Quantity
1	Boeing 727-100	1
2	Boeing 727-200	1
3	Boeing 737-200	1
4	Boeing 737-200C	1

Source: Aircraft types: Interair

The route network includes 10 short and medium haul destinations in Africa and the Indian Ocean.

Regional Destinations

	Country	Destination
1	Benin	Cotonou
2	Burkina Faso	Ouagadougou

	Country	Destination
3	Chad	N'Djamena
4	Congo	Brazzaville
5	Congo DR	Lubumbashi
6	Gabon	Libreville
7	Madagascar	Antananarivo
8	Mali	Bamako
9	Réunion	La Réunion
10	Zambia	Ndola

Source: Interair South Africa

Just one of the destinations served by the carrier (Antananarivo in Madagascar) is located in the SADC.

Interlink Airlines

Based in Johannesburg, Interlink Airlines was founded in 1997 and is privately owned. The airlines operate a fleet of Boeing 737 and McDonnell Douglas DC-9 narrow-body aircraft with an average age of over 25 years.

Interlink Airlines Fleet

	Aircraft Type	Quantity
1	Boeing 737-200	3
2	McDonnell Douglas DC-9	n/a

Source: Interlink Airlines

The airline serves 2 international scheduled destinations, one within Africa, Bujumbura in Burundi, and one intercontinental, Jeddah in South Africa.

Regional Destinations

	Country	Destination
1	Bujumbura	Burundi

Source: Interlink Airlines

Intercontinental Destinations

	Country	Destination
1	Jeddah	Saudi Arabia

Source: Interlink Airlines

Pelican Air Services

Pelican Air Services started operations in 2001 and is based in Johannesburg. The airline is a wholly owned subsidiary of Federal Air, a company that provides air shuttle and private charter services. The company operates scheduled services from Johannesburg and Kruger Mpumalanga international airports to Vilanculos in Mozambique, with a single ATR 72 regional aircraft.

South African Airways

South African Airways (SAA) was founded in 1934, when the Government of South Africa took over the assets and liabilities of Union Airways. The company is South Africa's flag carrier, and also the largest domestic and international airline in the country, as well as a member of Star Alliance.

The airline operates a modern fleet of 49 narrow-body and wide-body jet aircraft.

South African Airways Fleet

	Aircraft Type	Quantity
1	Airbus A319	11
2	Airbus A340-200	6
3	Airbus A340-300	6
4	Airbus A340-600	9
5	Boeing 737-800	17

Source: South African Airways

The A340 wide-bodies are used for long haul routes to Europe, North and South America and Asia, while the A319s and 737s are deployed to domestic and regional routes in Africa. The Airbus aircraft, valued at USD 3.5 billion, were ordered in 2002 as part of a fleet renewal and expansion program. SAA's route network is the most extensive for any carrier within the SADC, with 29 regional and 9 intercontinental destinations.

Regional Destinations

	Country	Destination
1	Angola	Luanda
2	Botswana	Gaborone
3	Congo DR	Kinshasa
4		Lubumbashi
5	Ghana	Accra
6	Ivory Coast	Abidjan
7	Kenya	Nairobi
8	Lesotho	Maseru
9	Madagascar	Antananarivo
10	Malawi	Lilongwe
11		Blantyre
12	Mozambique	Pemba
13		Beira
14		Maputo
15	Namibia	Windhoek
16		Walvis Bay
17	Nigeria	Lagos
18	Republic of Mauritius	Mauritius
19	Senegal	Dakar
20	Swaziland	Manzini
21	Tanzania	Zanzibar
22		Dar es Salaam
23	Uganda	Entebbe
24	Zambia	Ndola
25		Lusaka

	Country	Destination
26		Livingstone
27	Zimbabwe	Harare
28		Bulawayo
29		Victoria Falls

Source: South African Airways

SAA flies to 29 destinations in Africa, including 10 cities in 6 countries within the SADC, more than any other carrier under analysis.

Intercontinental Destinations

	Country	Destination
1	Australia	Perth
2	Brazil	Sao Paulo
3	Germany	Frankfurt
4		Munich
5	Hong Kong (SAR)	Hong Kong
6	India	Mumbai
7	United Kingdom	London
8	United States	Washington
9		New York

Source: South African Airways

The number of international destinations is more limited (with a total of 9 in 7 countries), but interestingly, SAA is one of the few airlines in the world with scheduled services to the five continents.

The size of the airline, its membership of the global alliance and the direct support it enjoys from the government presiding over Africa's biggest economy places the airline in a unique position to influence the pace and direction of YD implementation in the region. SAA also poses the greatest competition challenges for airlines and competition authorities.

YD will provide opportunities for SA to expand into currently restricted markets. The targets are likely to include Angola and Mozambique which are capacity constrained. The realisation of these expansion plans will depend on a number of factors. First, the continued state financial support at present levels or above. Drying up of this source could put into jeopardy any expansion plans as the airline does not generate sufficient revenue from own means to invest in expansion or any other program. It may be noted that continued direct support of the national carrier is viewed in most SADC quarters and within South Africa as anti competitive as it places the carrier at a competitive advantage over other carriers that are either wholly private or those that are state owned but receive no subventions from governments.

The other obstacle is that of infrastructure. The potential markets for expansion lack adequate airport infrastructure. It is unlikely that these countries will embark on infrastructure development expansion programs merely to accommodate additional services that may after all not materialise. The other challenge is to overcome the resistance from countries that fear that opening up could lead to the demise of local airlines. The big concern is not SAA to become the sole credible SADC operator as this is anti competitive.

South African Express

South African Express initiated operations in 1994, and although it is operationally independent of South African Airways, its flights are incorporated within the strategic alliance with SAA and Airlink.

The airline operates an extensive feeder network for SAA international services, offering passengers wide schedule coordination and access to SAA's frequent flier program Voyager. South African Express operates a fleet of 21 regional turboprop and jet aircraft.

South African Express Fleet

	Aircraft Type	Quantity
1	Bombardier CRJ-100	1
2	Bombardier CRJ-200	11
3	Bombardier CRJ-700	2
4	Dash 8 Q300	5
5	Dash 8 Q400	2

Source: aircraft types: South African Express.

The average age of the fleet is around 10 years. Besides a number of domestic destinations, the airline serves 5 international routes, 4 of which are located within the SADC.

Regional Destinations

	Country	Destination
1	Botswana	Gaborone
2	Congo DR	Lubumbashi
3	Mozambique	Maputo
4	Namibia	Windhoek
5		Walvis Bay

Source: South African Express

5.6.8 Conclusions

The findings for South Africa could be summarized as follows:

1. South Africa is the largest air transport market in the region and in Africa. It has three top ranked international airports in the world and the largest airline in Africa. The country accounts for more than seventy per cent of air transport activities in SADC and by extension in COMESA. For this reason, South Africa is a key factor in determining the impact and direction of YD implementation in the region

2. 2. The country has in place adequate institutional arrangements to facilitate implementation of the liberalization process. The Competition Commission is adequately empowered to determine and punish any anti competitive behaviour by any dominant carrier.

3. Economic regulation and technical regulation are handled by two separate institutions. The DoT deals with economic regulation while the CAA handles safety and security.

4. Airports are managed by the Airports Company of South Africa (ACSA), an autonomous statutory body. There are ten international airports but the main entry points for international services are Johannesburg O.R. Tambo International (JNB), Cape Town (CIA) and Durban (DIA). However, the policy is to promote as many airports as possible as entry points for international services.

5. Increased air traffic activities as a result of YD will facilitate realization of the policy objective of promoting other airports into international service providers.

6. Existing airport infrastructure is considered inadequate and cannot handle anticipated increased traffic. However, ACSA has launched a major rehabilitation and expansion program of airport facilities. About $1 billion is expected to be invested by 2010 the year of FIFA World cup.

7. Tourism growth has been constrained by inadequate air services and high ticket prices. .Consequently, the country has adopted an Airlift Strategy for the regulation of air transport in support of Tourism Growth Strategy. Air transport liberalization and in particular YD implementation is a key component of this Strategy. YD implementation is expected to result into more services and lower prices due to the expected competition on currently capacity constrained routes

8. South Africa has bilaterally liberalized air transport with a number of African States where existing bilateral air service agreements have been revised based on key elements of the YD. These countries include Botswana, Kenya, Ethiopia, Uganda, Libya, Gabon and Egypt. In the case of Botswana, the two counties have signed an open skies agreement allowing airlines to operate an unrestricted number of air services subject to safety considerations. As for Kenya, the bilateral agreement between the two countries has been revised to provide for unrestricted frequency and capacity. This has facilitated the growth in air services between the two countries to over thirty (30) weekly frequencies.

9. SAA, the national airline is considered a strategic asset and a catalyst for major economic development. Direct financial support and bailouts for the airlines are therefore likely to continue for the foreseeable future.

10. YD Implementation will provide opportunities for South African carriers to expand into currently restricted markets. A few of these capacity constrained markets have been identified for potential expansion. However, inadequate infrastructure in the concerned countries may delay implementation of these plans

11. There are concerns that safety may be compromised as a result of operators using old and inadequately maintained aircraft.

5.7 TANZANIA

5.7.1 Air transport Policy

The Air Transport Policy of Tanzania is set in a policy document on National Transport Policy published in 2003 by the Ministry of Communications and Transport. The policy recognizes the importance of domestic air travel because of the long distances and the need to satisfy business and tourism markets while acknowledging that domestic airports do not generate enough traffic to make them commercially viable. On international scheduled services which are currently governed by BASAs, the policy endorses YD implementation to attain the objective of sustained regional air transport services and to cater for increased demand for high standard tourist and transportation of non-traditional commodities.

Tanzania is the only SADC member that is also in the East African Community (EAC) comprising Burundi, Kenya, Rwanda, Tanzania and Uganda. The EAC Council of Ministers is responsible for civil aviation and the liberalization process in the community.

The EAC Council has decided to implement YD in full within the EAC by June. 2009. This requires harmonization of national policies and regulations to facilitate the implementation process Towards this end, the EAC Council through the Air Transport Sub-Committee, a body of experts, is finalising Competition Rules for approval by the Council of Ministers in time for the beginning of the implementation process. The rules will be applicable to all EAC airlines and will be binding on Member States.

The Sub-Committee is also harmonising regulations as well as aligning bilateral air service agreements with the Decision.

It is to be noted that as a member of both the EAC and SADC, Tanzania is a Party to the Joint Regulations for Competition in Air Transport Services within COMESA, EAC and SADC under which the Joint Competition Authority (JCA) was established to oversee competition and supervise implementation of YD in the three sub-regions. It would appear therefore that the EAC initiative is duplication as the tripartite arrangement also meets the requirement of all five EAC States. However, it was learnt that the EAC competition rules will be specific to the region and will supersede any other that competition regulation to the extent of incompatibility. This does not bode well for a SADC wide implementation of YD.

5.7.2 National Institutions

At national level the Ministry of Transport is responsible for policy direction and provides leadership in BASA negotiations. The overall regulatory function of air transport is vested in the Tanzania Civil Aviation Authority (TCAA), an autonomous body. It is responsible for both technical and economic regulation of air transport. It is also responsible for the preparation, coordination and implementation of national aviation policies

The TCAA was established in November 2003 as a Corporate Body pursuant to the Tanzania Civil Aviation Authority Act no. 10 of 2001.The Authority is governed by a seven member Board of Directors with six non executive members and the Director General of the Authority as the seventh member. The Authority is organised in four directorates, namely;

- Air Navigation Services.
- Safety Regulation
- Economic Regulation
- Corporate services

5.7.3 State of Liberalization and YD Impact

Tanzania was a Party to the adoption of YD in 1999 and supports its implementation due to potential benefits that are expected to be realised. The country has also concluded an “Open Skies” bilateral agreement with the United States of America (USA). Tanzania has made some progress in aligning bilateral air services agreements with YD. For instance, the country accepts a “Principal Place of Business” criterion for airline designation. Tariffs have been liberalised as government approval is not required. Only filing is required in a few cases. However, these agreements (BASAs), which continue to govern air transport relations between Tanzania and SADC countries, remain restrictive in respect to granting of fifth freedom and restrictions, though relaxed, on increase in frequency and capacity have not been removed. Fifth freedom is allowed only where there is no third and fourth freedom operator while restrictions on capacity have been removed only in respect to aircraft type.

The period since the limited liberalisation has witnessed steady growth in traffic. In the past five years new airlines have been opening new routes to the country’s international airports. The prognosis is that this growth trends is poised to continue with full ill implementation of YD. Dar es

Salaam and Kilimanjaro airports are to be the major beneficiaries of this anticipated increase in air traffic activities. Further opening up of the market may provide the needed connectivity for Dar es Salaam to mature into an alternative hub in East Africa. The increase in traffic at airports is also bound to create direct airport jobs. In this regard, the gradual opening up of the market has already resulted into more jobs at the two major international airports. This trend is expected to continue at an accelerated pace following full implementation of the liberalization program.

This strong growth however, is expected to be driven by strong carriers from other SADC and EAC countries. Airlines of Kenya and South Africa in particular are expected to take full advantage of opportunities to expand their operations into Tanzanian airports. The airlines are expected to increase their operations on the lucrative international routes currently shared by Air Tanzania, the national airline of Tanzania and Precision Air, a private carrier in which Kenya Airways has a 49% share holding.

For example Kenya Airways, a, member of the Sky Team Alliance, will seek to add to the twenty one (21) frequencies it currently operates on the NBO/DAR route. It may also seek to operate direct services into Kilimanjaro airport or push for an increase of frequencies by Precision Air (PW) which currently operates on the route. South African Airways, a member of the Star Alliance may also expand operations from points in South Africa to Dar es Salaam or, Zanzibar or Kilimanjaro airports. Other equally strong carriers from South Africa such as SA Air Link and Skyways Express may increase or commence operations from points in South Africa to any of the international airports in Tanzania.

Expanded services have the potential to provide enormous benefits to the consumer, the airlines and the wider economy. The consumer will benefit from an increased range of options, greater choice, lower or competitive fares and rates, and improvement in the quality of service. As already indicated, increased services will improve the connectivity of Dar es Salaam enhancing its prospects of becoming an alternative hub in the region. More air traffic activities associated with a hub airport will have spin-offs benefits for the economy. In addition, YD implementation by allowing and encouraging competition is expected to bring the realisation to local airlines that protection cannot last forever thereby compelling them to take measures to improve efficiency and competitiveness to thrive in the new environment. These measures could include forging alliances to strengthen their competitive position. For example Precision Air responded to the competitive threat from the SA/TC alliance by aligning itself with Kenya Airways, placing the airline in a very competitive position. Local airlines would also be forced to address safety concerns by seeking compliance with the IATA IOSA Safety program to attract potential alliance partners.

In addition both local and other regional carriers also potentially stand to benefit from traffic stimulation normally associated with liberalization as happened with countries that have adopted liberalization. For example, an ECA Study carried out in 2001 found that despite substantial increase in frequency between Uganda, Kenya and Ethiopia, the load factors had not declined indicating an overall increase of traffic. In addition, fares between Nairobi and Addis Ababa had gone down from US$630 to US$350.

The wider economy will benefit from increased revenue from increased air traffic activities. Given Tanzania's vast tourist potential YD implementation has the potential to encourage the development of the tourism sector. Expanded and increased services are expected to open up new markets and provide better and improved access to the country's tourist destinations. Expanded services with more airlines operating to the country are expected to offer more competitive pricing, creating the opportunity to attract more business into the country. For example, charter operations could attract high income tourist seeking quality products and price combination.

A liberalized air transport sector could also attract more private sector participation in the industry injecting the much needed fresh capital in the sector. For example, adherence to the eligibility criteria based on the location of the principal place of business as provided by YD is expected to

attract foreign private investors to set up airlines in the country and exploit the huge traffic and tourism potential that exists in the country.

While there is considerable potential for airlines to benefit from the liberalized environment, the concern is that there is likely to be a cost to it as only foreign airlines are likely to benefit from YD. Local airlines are likely to be adversely affected as they are yet to reposition themselves to operate in the new environment by improving their overall competitiveness. These airlines will have little chance of remaining in business. Local airlines particularly Air Tanzania, the national airline in its current form is not strong enough to take full advantage of available opportunities. It is not competitive enough to survive the increased competition from well resourced airlines connected to worldwide distribution networks through their membership in global and other alliances. In the circumstances, the national airline and other local incumbent carriers will be forced to exit international routes in response to this competition challenge. This will lead to the inevitable collapse and closure of the national airline as the international routes are the mainstay of its operations and the basis of survival.

The argument is that the demise of local airlines will negatively impact on the operations of airports in a number of ways. The aspirations of JNI to achieve hub status may at best be delayed and at worst derailed for a strong national carrier is essential for the creation of a hub airport. Furthermore, domestic airports will not benefit from expanded services by foreign airlines. They depend on the business provided by local carriers to remain commercially viable. The closure or further weakening of these airlines will therefore threaten the viability of the domestic service providers to continue as viable economic entities. The collapse of these airlines will deprive the travelling public of this essential domestic air service important for the social and economic integration o the country. This would be inconsistent with the national policy which seeks to promote both international and domestic air travel. One is not to be sacrificed at the expense of the other.

It is also argued that a local airline industry promotes the acquiring and transfer of technology. The industry also offers high quality jobs in comparison to the many jobs that may be created by an expanded tourism sector. The collapse of the local airline industry would make this impossible. The challenge therefore is to ensure that the benefits of liberalization are not lost while at the same time maintaining a strong domestic air transport infrastructure.

The fears and concerns about the consequences of the collapse of the local airlines are legitimate and deserve serious consideration and attention. However, there could also be a positive result to this development. It is worthy emphasizing in this regard that protection of these airlines cannot continue in perpetuity. The tax payer can no longer be expected to continue supporting a national airline that shows no sign of improving in is effectiveness and profitability even after countless restructuring programmes. The disappearance of the national airline in current form may therefore actually turn out to be good riddance giving rise to a new brand of private airlines offering competitive services free from government interference and dependence. These airlines may in the long run prove to net contributors to GDP and not a drain on the national treasury. For those state owned that may survive the competition, liberalisation in the form of YD will provide an opportunity for them to take necessary action and strategies to restructure and position themselves to thrive in the new environment. The market forces may after all be what are required to restructure the African airline industry into a less fragmented and more competitive sector.

5.7.4 Gradual Implementation

It is clear that opening up air transport markets has enormous potential benefits for Tanzania. The industry will grow while the consumer will have wider choices and benefit from lower prices and improved quality of services. The wider economy will benefit from the creation of more jobs and the promotion of the tourism industry. However, it is likely to be accompanied by some negative consequences including possible closure of the national airline with the resulting loss of jobs. Also

to be adversely affected will be domestic airports whose sustainability depends on the operations of local airlines. Domestic air travel is also likely to suffer as a result of the collapse of or reduction in services offered by local carriers. Consequently, there is need for an approach that would allow YD implementation to proceed while mitigating its negative effects.

In light of the above, gradual implementation with selectivity was recommended as opposed to a big bang approach. This would mean that selected routes considered critical for the viability of any local carrier providing essential domestic services would temporarily be exempt from full liberalization. The restrictions could be in the form of frequency or seat specific. For example, the DAR/JNB sector could continue with the current level of operations during the first year (2009) of YD implementation. This would gradually be relaxed incrementally with a fixed time frame of full implementation in say two years time or any period to be agreed by the Council of Ministers. During this transition period the local airline will commit itself to carrying out the necessary restructuring or to reposition itself to operate in a competitive marketplace. There is to be no extension to the agreed transition period. Protection of airlines cannot be allowed to continue in perpetuity. Those that may not be ready then would be allowed to die.

This approach was used in Europe to ease implementation of the single liberalized European market. This was also the thinking of the originators of YD when they provided for a two year transition period. It is also consistent with the position of gradual liberalization enshrined in the SADC Protocol on Transport, Communications and Meteorology. It is not an attempt to unnecessarily prolong protectionism but rather to remove it in a gradual and orderly manner.

5.7.5 Airport Infrastructure

There are nine airports in Tanzania with four being international airports. These are: Julius Nyerere International (JNI) Kilimanjaro (KIA), Mwanza and Zanzibar. Major domestic airports include Dodoma and Tabora and numerous other smaller aerodromes and air strips making a total of about 60 airports. The Tanzania Airport Authority (TAA), a statutory body is responsible for the running of the four international airports. Ground handling services are provided by a private company at JNI and Kilimanjaro, the major international airports. All airports are government owned except Kilimanjaro which was privatized and is owned by the Kilimanjaro Development Company

Presently, the domestic airports and air strips do not generate enough traffic to make them commercially viable. However, domestic air travel is important for Tanzania because of the long distances involved between major regions. The domestic services also serve to satisfy business and tourism markets.

The four international airports in Tanzania are characterised by poor airport infrastructure. . The terminal facilities at JNI the major international airport are inadequate. The facilities certainly do not have the capacity to handle increased air transport activities resulting from full YD implementation. There are no parallel runways and consequently cannot handle multiple landings and departures. The anticipated increase in traffic that could result from liberalization will therefore have to be accompanied by upgrading of the infrastructure and improvement of safety

There is in place however, a government funded Master Plan for the development and expansion of JNI and Kilimanjaro International airports (KIA). Under the Plan, JNI has embarked on major rehabilitation and expansion programs including runway renewal, construction of Taxi ways to ICAO category 4e and rehabilitation of Taxiways and aprons. These programs are expected to be completed within two years. The Kilimanjaro Development Company (KADCO) has also invested in infrastructure and improved facilities for passengers.

The inadequate airport infrastructure will be a major constraint to full implementation of YD as planned. It will have to be phased in line with the suggested approach above to allow for

completion of these programs. In addition, the heavy investments to carry out rehabilitation and expansion programs will translate into added costs to the national treasury.

5.7.6 Air Transport and Tourism

According to the Ministry of Tourism, the objective of the Tanzanian Tourism Policy is to develop a sustainable Tourism which is environmentally friendly and economically viable which can assist local industry to reduce poverty. The strategy is to create more jobs through direct investment into the sector. As at the end of 2007 the sector supported three hundred thousand (300,000) jobs

In 2007 Tanzania received about 720,000 international arrivals. The target is One Million tourists by 2010. Air transport is to play an important part in reaching this target and achieving the overall objective. However, the air transport sector in Tanzania does not adequately serve the tourism industry in a number of ways. There are no direct services from source markets. From instance China a growing market is not directly served because the national airline does not have the capacity to do so. In addition, domestic fares are very high. As an example, the fare between Dar es Salaam and Mwanza is the same as JNB/DAR. Landing and other airport charges are very high compared to neighbouring Kenya. As a consequence Tanzania is a comparatively more expensive tourist destination than neighbouring countries with similar tourist attractions. Most of the tourists come through Kenya because Kenya is cheaper.

Given this scenario the tourism sector would benefit from full YD implementation if it facilitated direct flights charging competitive fares from source markets and not through connections as is currently the case. A strong national airline is also required to fly tourists from source to promote Tanzania as a tourist destination. The argument for a strong national airline is that this would maximise benefits to the country. Full YD implementation allowing more direct fights to the country would positively impact on the Tanzanian tourism sector.

5.7.7 Market Outlook

Tanzania is connected with scheduled flights to South Africa and Mozambique. The following table details the existing routes.

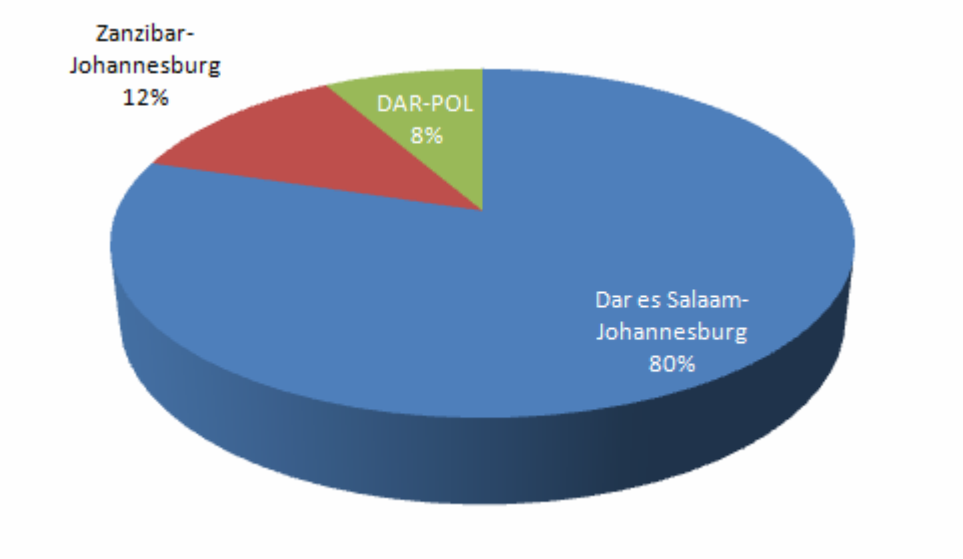
Routes Served From Tanzania

	Origin	Destination	Country	Carriers
1	Dar es Salaam	Johannesburg	South Africa	Air Tanzania✈, SAA
2	Zanzibar	Johannesburg	South Africa	1time
3	Dar es Salaam	Pemba	Mozambique	LAM

Source: Official Airline Guide
Note: SAA: South African Airways, LAM: Linhas Aéreas de Moçambique
✈ the airline is currently grounded

Johannesburg is served from Dar es Salaam and Zanzibar, while flights to Pemba are only flown from the capital. There is no non-stop connectivity between Tanzania and 4 SADC countries. Dar es Salaam-Johannesburg is the biggest market in terms of capacity.

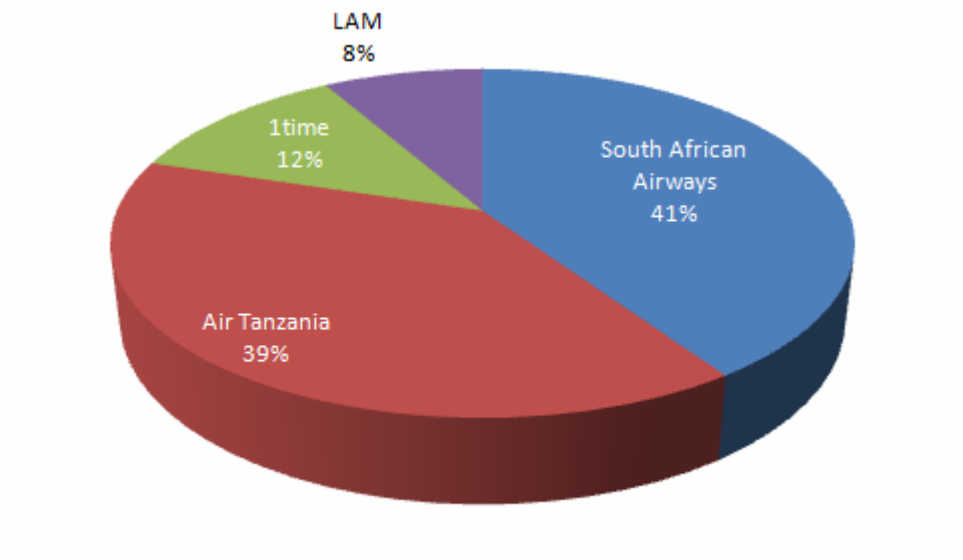
Seat Capacity Share from Tanzania, by City Pair



Source: prepared by the consultant with information from the Official Airline Guide
Note: DAR: Dar es Salaam, POL: Pemba

Tanzania's most important link within the SADC is Johannesburg, with an 80% capacity share from Dar es Salaam, and 92% if Zanzibar is also considered. Pemba holds 8% of the seat availability. The bulk of the capacity is evenly distributed between Air Tanzania and South African Airways.

Seat Capacity Share from Tanzania, by Carrier



Source: prepared by the consultant with information from the Official Airline Guide
Note: Air Tanzania is currently grounded

Air Tanzania and South African Airways are the only carriers operating the Dar es Salaam-Johannesburg and both offer almost exactly the same number of seats, suggesting, as in other countries, that capacity is restricted by the ASAs. 1time and LAM don't have competition on the Zanzibar-Johannesburg and Dar es Salaam-Pemba markets (respectively); hence their capacity share is the same as the share of the routes.

5.7.8 Major Airlines

There are two local airlines that operate international scheduled air services in Tanzania. They are: Precision Air (PW) and Air Tanzania (TC)

Air Tanzania

Air Tanzania (TC), the national airline of Tanzania is100% government owned. Its recent history includes a five year equity sharing partnership with South African Airways up 2007 in which SA owned 49% of the airline. The airline was suspended to operate in December 2008 after the Tanzanian Civil Aviation Authority revoked its operating certificate due to financial problems.

The TC fleet of six aircraft consists of the following:-

- One A320
- Three B737
- Two Dash U3100

Air Tanzania used to operate scheduled international services in Eastern and Southern Africa. It operated 7 frequencies to Johannesburg and Nairobi respectively. It also operated five frequencies to Entebbe and 2 services to the Comoros Islands

Precision Air (PW)

Precision Air is private airline partially owned by Kenya Airways (49%). The airline operates domestic services and regional services out of Kilimanjaro International Airport to Nairobi, Entebbe and Pemba in Mozambique. The PW fleet consists of 2 ATR 42 aircraft.

As a private carrier it is run on commercial basis and has achieved some phenomenon growth since its establishment in 1999. The airline positioned itself to compete in an increasingly competitive environment by entering into equity sharing partnership with Kenya Airways, a member of the global Sky Team Alliance. It has acquired modern equipment and has established itself as a market leader in the markets it serves by offering competitive fares and first-rate services.
However, Precision Air is concerned about YD implementation and the resulting unfair competition from stronger airlines from the Republic of South Africa. The airline considers itself particularly vulnerable as it receives no direct government support or protection. The competition for the airline will therefore be at two levels i.e. from the government supported airline at home and mega carriers on international routes. In the circumstances the airline may not survive in an environment of increased competition.

Against this background and to create confidence and sense of ownership, phased implementation involving selected routes should be considered.

5.7.9 Foreign Operators

There fifteen (15) foreign airlines operating in Tanzanian airports listed as follows:

1. Air India
2. Air Malawi
3. Air Uganda
4. Air Zimbabwe
5. British Airways
6. Emirates
7. Ethiopian Airlines
8. Kenya Airways
9. KLM
10. Qatar airways

11. LAM – Mozambique Airlines
12. South African Airways
13. Swiss International
14. Yemeni Air
15. Zambian Airways.

Out of the seven SADC and EAC operators only two airlines; Kenya Airways and South African Airways may have the capacity to take advantage of full YD implementation and expand further their operations into Tanzania.

5.7.10 Conclusions

In summary the Study findings in respect to Tanzania are as follows:

a. Tanzania together with other EAC countries are developing parallel competition rules to the Joint Regulations for Competition in Air Transport within COMESA, EAC and SADC. It is not clear how these rules will relate to the JCA. This could be a source of conflict.
b. There is an autonomous Civil Aviation Authority responsible for economic regulation and air transport liberalization.
c. The airport infrastructure at JNI airport, the major service provider for scheduled international scheduled services is inadequate. The airport does not have the capacity to handle increased traffic. Considerable investments are needed to expand and upgrade terminal facilities to cope with anticipated increase in traffic. However, there is in an airport Master Plan in Place under which major expansion and upgrading programs are underway.
d. 4.There is concern that full YD implementation may lead to the demise of local airlines and consequently affect the provision of domestic air transport services. There are also fears that this may create monopolies in the form of Kenya and South African Airways. Operations of small domestic airports would also suffer from collapse of local airlines as they depend on services of these services for sustainability.
e. 5.Phased implementation of YD should be considered on selected routes to ensure benefits from liberalization while at the same time maintaining a viable domestic air transport system.

6. OVERALL CONCLUSIONS

6.1 Institutional Arrangements

Considerable effort has been made at regional level to put in place the legal and institutional framework to facilitate the liberalization process. These institutions include:

- The Council of Ministers,
- The Regional Competition Authority
- The Civil Aviation Committee
- Other Regional Arrangement
- Steering Committee on Implementation of YD

At national level, policies, laws and institutions, are being reformed to facilitate the liberalization process. Autonomous Civil Aviation Authorities have been established in almost all States to be responsible for the overall administration and regulation of civil aviation. Only Botswana, Mozambique and Namibia had not established an autonomous Civil Aviation Authority out of the surveyed countries. However, the process was under way to create such an Authority in Botswana and Namibia.

Nearly all Authorities however, suffer from shortage of skilled manpower particularly in airworthiness inspection mainly due to lack of financial resources to train and retain such manpower. This is likely to adversely affect the capacity of the affected authorities to effectively

carry out functions of economic regulator. An investment in this critical resource must be factored into the YD implementation strategies

However, this chronic and cross sector African problem may not hinder the implementation of YD.

6.2 Regulatory Framework

YD will impact on the regulatory framework as most Member States have their own national air transport policies and regulatory framework and interpretation of air transport provisions and programmes. They also use existing bilateral air services agreements between each other in negotiating market access rights. While considerable progress has been made in liberalising these agreements, some are still restrictive and inconsistent with YD particularly with respect to the granting of 5th freedom rights. These rights continue to be granted on the basis of reciprocity or on a case by case basis. Implementation of YD will change this regulatory landscape as its principles, governing the exchange of traffic rights, fixation of tariffs, capacity and frequency, designation of airlines and criteria for their eligibility will become the national air transport policy for all 15 countries of the SADC region. Modalities of application of these principles will have to be detailed in harmonized regulation leading to eventual replacement of bilateral agreements by these unified set of rules thereby ushering in an approximate single regional air transport services market.

6.3 Anticompetitive Behaviour

Anti-competitive practices are a major concern in many States due to the perceived lack of a mechanism to regulate such behaviour. This is despite the fact that, the region, together with COMESA and EAC, has in place Regulations for Competition of Air Transport Services. A Regional Competition Authority (RCA) is also in place. There are however, no visible concrete steps to activate these structures. The ongoing initiative by the EAC to develop parallel rules can be seen in this light. This is obviously a source of potential conflict in respect to countries with dual membership.

There is need therefore, as a matter of priority, to speedily resource and activate these institutions to dispel these concerns. Furthermore, the capacity of the Authorities has to be enhanced and strengthened to enable them competently determine and punish anti-competitive behaviour to install confidence. There is also need for a co-coordinated approach to avoid any area of conflict or duplication.

6.4 Legislation

Enabling legislation has been enacted in some States to facilitate liberalization. For example Madagascar has adopted a civil aviation code which not only provides for the creation an autonomous civil aviation authority but also for liberalization. However, having signed the Abuja Treaty there appears to be no further commitment by states to enacting the necessary domestic legislation to implement the YD. For example, it is a requirement in South Africa for an International Treaty to be domesticated to be binding and enforceable. This has not been done. On the extreme end is the Angola law of economic limitation and the Air Botswana Act which protect national airlines from competition.

6.5 State of Liberalisation

Nearly all the States have liberalized the domestic air transport markets. Private airlines have been established to compete for traffic in these markets. A number of countries have also been implementing YD within the framework of existing Bilateral Air Service Agreements (BASAs). They have revised these agreements to incorporate YD principles to open up market access in a manner not contemplated in traditional BASAs. In short, there is greater flexibility in the granting of rights with the exception of 5th freedom. For example, Ethiopia, South Africa, Kenya, Uganda and

Zambia have particularly been successful in opening up markets through “Open Skies” bilateral agreements based on YD.

In the SADC region, South Africa has bilaterally liberalized air transport with a number of African States where existing bilateral air service agreements have been revised based on key elements of the YD. These countries include Botswana, Kenya, Ethiopia, Uganda, Libya, Gabon and Egypt. In the case of Botswana, the two counties have signed an open skies agreement allowing airlines to operate an unrestricted number of air services subject to safety considerations. As for Kenya the bilateral agreement between the countries has been revised to provide for unrestricted frequency and capacity. This has facilitated the growth in air services between the two countries to over thirty (30) weekly frequencies.

Other countries that have liberalised their BASAs by incorporating YD provisions are Madagascar, Tanzania and Zambia. These countries have opened up their markets with selected bilateral partners in a manner not contemplated in traditional BASAs

Few countries however, still maintain traditional BASAs with stringent restrictions on frequency, capacity and a single designation regime that does not allow multiple designations. As a result, competition is restricted and capacity is constrained on international routes.

It is clear from the above that there are varying degrees of YD implementation. In fact there are more or less two distinct groups consisting of those countries that are progressively liberalising using YD principles and those that still are reluctant to relax their BASAs. However, while states in the first group may continue to liberalise without the formal adoption of YD, it cannot be guaranteed that all such countries will maintain the momentum. Others could lapse back into protectionism joining those that are still having difficulty in determining the right time to liberalise. The ideal situation therefore is for all States to liberalize at the same time within the YD framework and make use of joint opportunities together.

6.6 Pricing and Tariffs

Tariffs have largely been liberalised as Government approval is not required in most cases. Airlines are free to use market fares. Only filing of tariffs is required in a few cases. However, it was not possible to determine any reduction in tariffs due to non availability of relevant data.

6.7 Impact on Airports

YD implementation has enormous growth opportunities for airports. Air traffic growth due to liberalisation means more business and revenue for them. In addition to growth in revenue YD would enhance prospects of some airports to become regional hubs or international entry points due to increased same day connections. For example, according to TAA, expanded services have the potential for JNIA to develop into a second hub for the Eastern Africa region. Tanzania as a whole is also already benefiting from the relative liberalisation as the past five years have witnessed steady growth in traffic with new airlines opening new routes to the country’s international airports. As a result traffic volumes have been increasing. For instance, there was a 16% increase in 2007 over 2006 creating more airport jobs. Zambian aviation authorities also view YD as the vehicle for the centrally located Lusaka to become a hub for the region. In addition, Harare airport aspirations to be an alternative hub to Johannesburg are likely to be realised once YD is effectively implemented and restrictions are removed particularly on 5th freedom rights. For South Africa, YD would advance the objective of promoting more airports as entry points for scheduled international services. In this respect, Pilanesburg is currently developing into the tenth international airport in South Africa due to increased air services partly as a result of limited YD implementation.

The creation of more hubs would lead also to improve regional linkages and connectivity. In addition, the granting 5th freedom traffic rights would facilitate operation of viable new regional routes that would provide city pair connections where they do not exist or where existing ones are not conveniently interconnected, thereby necessitating considerable layover at intermediate points. This is against the background of very limited point-to-point traffic, the support of 5th freedom traffic is therefore most crucial in ensuring the sustainability and profitability of any such service.

YD implementation would also improve regional linkages and connectivity through the creation of more hub airports and expansion of services. For instance, granting 5th freedom traffic rights would facilitate operation of viable new regional routes that would provide city pair connections where they do not exist or where existing ones are not conveniently interconnected, thereby necessitating considerable layover at intermediate points. This is against the background of very limited point-to-point traffic, the support of 5th freedom traffic is therefore most crucial in ensuring the sustainability and profitability of any such service.

6.8 Airport Infrastructure

YD implementation will have significant impact on infrastructure development. With very few exceptions, the airports in SADC have inadequate infrastructure. In most cases, terminal facilities including departure, arrival and transit areas for passengers and cargo cannot adequately handle current air traffic. Any additional traffic would further challenge the existing infrastructure. Thus, the anticipated increase in traffic will have to be accompanied by upgrading of the infrastructure and improvement of safety and security equipment. This will require major capital investment to execute major maintenance and rehabilitation to upgrade and expand capacity to facilitate handling of increased air traffic activities. For example in South Africa, the current five year capital plan will involve $2 billion on its own while Madagascar estimates over this $1 billion. The total cost for the region over the next five year period could be around US$5 billion.

While there is an obvious need to upgrade and expand infrastructure, it is not sufficient grounds to delay implementation of the liberalisation programme as almost all airports accept and handle increased air services in the event that such an increase was requested in line with an existing BASA. It is therefore safe to assume that the current airport infrastructure has the capacity to handle additional services resulting from expected YD implementation. In short, while poor infrastructure may negatively impact on the performance of some airports, it may not impede the liberalisation process under YD. In addition, any additional traffic will also mean additional revenue streams being generated to assist with the financing of such infrastructure development.

Most airports are however, carrying out upgrading and expansion programs in line with their medium and long term development plans resulting in significant improvements. A brand new airport is under construction in Angola. There is need for governments and cooperating partners to build on the programs underway and match improvements in these areas with YD implementation and other development programmes.

6.9 Aviation Safety and Security

There is concern in some States that opening up markets in the manner contemplated by YD may adversely impact safety as some operators operate aircraft that do not meet ICAO safety requirements. Continued fleet modernisation would address this problem.

6.10 SADC Airlines Industry

The airlines in SADC countries that provide services can be categorised as state-owned **or** private-owned. There are an estimated 70 airlines in the region, out which 20 operate scheduled international services with a mixed fleet of over 180 aircraft. Twelve of the international operators are state owned in 11 Member States while the remainder are private owned and mainly operate

domestic and charter services. Privately owned airlines have been designated to operate intra-regional scheduled services in at least 4 Member States.

The provision of international services in the 7 surveyed States is equally dominated by Government owned national carriers. Fourteen (14) airlines operate international services in these countries with a fleet of about 130 aircraft. Out of the fourteen, six (6) are owned by states and only four (4) are long haul operators. SAA is the dominant carrier in this category as it operates to nearly all Member States and carries most of the inter-regional traffic via its Johannesburg hub. ET and KQ are other African airlines that provide scheduled international services to and from the region. Over 60% of long-haul traffic out of the region is flown by about 50 non-SADC carriers.

6.11 YD Impact on Airlines

YD will impact positively on airlines in a number of ways as the regulatory framework will provide airlines the freedom to fully exploit opportunities in the marketplace. It will allow them to allocate capital more efficiently and to respond better to changes in demand in markets as well as to rationalise capacity. For example, YD liberalisation will provide to South African operators the commercial freedom to expand their operations into markets that have hitherto been restricted. Liberalisation will also present opportunities for Air Namibia to expand its operations into capacity constrained markets in the region. TAAG - Angola on the other hand is on record that the airline is already benefiting from the prospects of liberalisation as it is largely responsible for the airline's improvement programmes. It is investing heavily in people and equipment to reposition itself to respond to the competition challenge. As a result the airline is more efficient and shaping up to be a competitive outfit. A strong revamped TAAG also plans to expand its services in the region and beyond.

Liberalisation will also increase private sector participation and investment in the industry thereby benefiting the wider economy. YD will also allow morel private operators to enter the international market providing more services.

6.12 State Owned National Airlines

YD will have profound financial implications for these airlines which provide the bulk of intra-region scheduled air services. Most of them are small and financially weak; their ability to sustain operations does not always depend on their profitability but on government assistance or subsidy. For example SAA is subsidised to the tune of about US$ 4 million annually to sustain

However, Article 7 of the Regulations for Competition in Air Transport Services within COMESA, EAC and SADC, prohibits subsidies to airlines which distort or threaten competition. Although these subsidies may continue to be granted under exceptional circumstances, it is unlikely that such assistance, particularly in the case of direct financial aids/subsidies, will continue indefinitely. This will deprive airlines, such as SAA, an important source of funding for operations and the realisation of expansion plans.

The bilateral air transport framework currently in use has also been providing non-monetary form of implicit assistance to national air carriers in their own markets by limiting the scope of competition. YD will eliminate this implicit assistance by removing State imposed restrictions thereby exposing national carriers to open competition which most are ill equipped to survive and thrive. Increased competition will reduce market share of national airlines with the effect that they will lose money. In addition, competition will translate into lower fares and rates without a matching reduction in unit costs resulting into further reduction in profitability.

Apart from implications associated with state interventions, airlines are also expected to incur direct financial costs in response to this challenge. This will include expenditure on fleet acquisition and renewal. Airlines will also have to finance internal improvement programmes such as upgrading

standards of safety and security. Human resources capacity building and training are also likely to form a large segment of these turn round strategies.

6.13 Privately owned airlines

Most of these airlines were established following the liberalisation of the domestic markets. The majority are domestic and charter operators except in States without government owned airlines such as Zambia and a few others, where they have been designated to operate intra-region and long haul routes. Unlike their state owned counterparts, these national carriers do not receive subsidies or direct financial support from the State in form of capital injection, loans or bailouts in times of financial difficulties. However, they also enjoy regulatory support provided by the bilateral framework that restricts competition on some markets. In this regard, YD implementation and resulting competition are expected to have similar impact on private airline as state owned carriers.

However, according to AASA, the majority of privately owned airlines support liberalization and the implementation of YD irrespective of the consequences. The only private airlines that have reservations on YD are those who serve niche markets and who would feel threatened if a large carrier would find their markets attractive. Those who compete directly with national airlines do not fear liberalization.

6.14 Airline Co-operation and Partnerships

There are few alliances and other fundamental cooperative ventures between and among SADC carriers particularly between ‘weak’ and ‘strong’ airlines. The airlines have not entered into deeper cooperation agreements such as strategic alliances, mergers or joint ventures. The only agreements on record are simple code share agreements between Air Madagascar and Air Mauritius and between Air Madagascar and SA Air Link. Other code share agreements are those between TAAG and Air Namibia as well as between TAAG and Air Zimbabwe. SAA is the only SADC carrier in a strategic partnership as a member of the Star alliance. Precision Air is also in an equity partnership arrangement with Kenya Airways.

It is also to be noted that few small African airlines have a co-operative arrangement with their strong African counterparts. The big airlines instead aspire to join ‘elitist’ Alliances such as Star alliance or Sky Team. As a result of this low level cooperation, the airlines have limited market reach and are not able to provide a seamless service. For instance, some country pairs have no direct air service affecting the quality of air links offered to the travelling public.

Various factors can be attributed to this low level of co-operation bearing in mind that these are two way arrangements, and as such, both airlines must have something to offer including stability and a network which will benefit the other partner. Some other important factors include safety and security concerns. Most airlines have yet to meet the safety and security standards required to make them eligible or attractive as alliance partners. . These standards are currently defined as IOSA compliance. In addition, government subsidies; more often than not remove the motivation for airlines to cooperate. It has also been argued in some quarters that as the majority of African airlines are weak cooperation between and among such operators would only compound the problem.

However, the bilateral agreements still in force are the underlying reason for this apparent reluctance of state-owned airlines to enter into strategic alliances. The bilateral regulatory environment shields national airlines from competition, a key incentive for adopting strategies that would turn them into more competitive units. Ownership restrictions are one other hurdle for airlines to enter into deeper cooperative agreements. As a result, partnerships have been restricted to “simple code sharing” where each airline operates independently on every aspect other than putting one airline’s code on another’s flight.

It is expected that YD will facilitate deeper cooperation as the Decision broadens the ownership and control provisions by introducing a regional ownership eligibility designation criteria. Anticipated competition would also create conditions for these airlines to enter into alliances including joint ventures and equity partnerships. These arrangements are vital for airlines in the region that with few exceptions, operate in thin markets, are extremely small, financially weak and the threat of either elimination or at least reduction of governmental subsidisation, and subject to an increasing level of competition.

This can only happen by removing the protection that most state-owned airlines are enjoying and allowing the market forces full play.

6.15 View of States on YD impact on National Airlines

Eleven (11) of the 15 Member States have state owned national airlines which they consider strategic tools for development. Apart from providing local jobs they, among other things, ensure provision of domestic and intra-region services which are essential due to deficiencies in surface transport. They also support domestic airports. National airlines also play an important role in promoting trade, tourism and technology transfer. It is within this perspective that most States view the impact of YD on national carriers.

The majority view is that most of these airlines do not have the capacity to compete in a liberalised market and exposing them to competition in their current state will lead to their being driven out of business.. The impact of their demise will be on domestic services and on competition on intra-regional routes as this may lead to the introduction of monopolies on these routes. Domestic services are likely to suffer a reduction and the viability of domestic airports will also be put at risk. In addition, the exit from the marketplace of local airlines would likely result in the emergence of a regional monopoly. The emergency of monopolies will be counterproductive as it will not lead, among other things, to fare reduction. A monopolistic situation would be anti-competitive and against the spirit and intent of Yamoussoukro. In this regard, it is argued that YD focuses on international services while national governments have also to consider domestic air transport which is important for national development and integration. Some countries would wish therefore that some form of protection continued until such time that the local airlines are strong and ready to operate and compete in a liberalised marketplace. Consequently, programmes to strengthen the airlines and to reposition them to be more competitive units are underfoot in some states. Angola and Madagascar in particular, are investing in their national airlines to prepare them for liberalisation. Governments are also carrying out enabling reforms to attract private investment in the local airline industry.

However, despite the concern for the fate of national airlines, States also recognise that YD will create the freedom for airlines to operate on full commercial basis allowing them to allocate capital more efficiently, to respond better to changes in demand in markets and to rationalize capacity. Indeed, some national airlines have already identified potential new markets that may open due to YD implementation. It is further realized that a more competitive industry would be more beneficial to the national economy than maintaining a national airline at the expense of the tax payer.

Our view is that while there are some legitimate concerns about national airlines such as that relating to the creation of a monopoly, the outstanding question is still for how long can these airlines continue to be protected in the face of evidence that liberalisation would be of greater benefit to national economies and the region than maintaining airlines that are a cost to the tax payer. The issue is: when will they be ready? There must be an end at some point as protecting weak airlines means that they will remain weak. There is a significant cost to the State to support these airlines and the State needs to assess its preparedness to invest in loss making organizations compared to other State imperatives. In this regard, some of the national airlines, in particular those that depend entirely on government financial support, have to be allowed to die for greater national economic benefit. Liberalization could after all see the emergence of new

competitive airlines and therefore may not necessarily result in a reduction in the provision of services. The lack of action delays progress on liberalisation and increases losses of the national airline and consequently drains State resources. SADC can therefore ill afford to soft pedal as it is costing the industry and the region growth opportunities and competitiveness in the globalised world. All remaining restrictions on competition must be speedily removed to achieve the objective of an integrated and competitive air transport industry

6.16 YD and Tourism Development

Most States have prioritised tourism as one of the economic growth sectors that can help achieve growth in the economy. States also recognise the strong synergy between aviation and tourism, primarily as the large bulk of international tourists are carried by air. Furthermore, strong tourism destinations are most effectively built in combination with strong airlines. Therefore, adequate and quality air transport is essential for achieving this objective.

However, tourism growth has been constrained by inadequate air services and high ticket prices in at least all States. National carriers do not have the capacity to meet the requirements of the industry. Most of them do not have direct flights to source markets. Domestic networks do not reach all the local tourist destinations making them virtually inaccessible by air. Foreign airlines that fly in the bulk of international tourists are unable to increase frequency and expand operations due to existing restrictive traffic rights policies. Inadequate airport infrastructure is one other inhibiting factor.

Another inhibiting factor is the high cost of travel to the region and to individual countries as lack of competition means that fares remain fairly high in comparison to other markets in the world. Domestic fares are particularly very high. For instance, in Tanzania, the fare between Dar es Salaam and Mwanza is the same as JNB/DAR. Research conducted by the ComMark Trust in 2005 confirmed the direct link between constrained routes (lack of competition) and high tariffs. The research has also confirmed that on average air fares represent one third of the total costs of visiting South Africa. Although tariffs are generally deregulated allowing market forces to ensure fair pricing, this has not happened as most markets are capacity constrained.

It is in this context that Air transport liberalisation is expected to improve the quality and quantity of air services vital for the promotion of trade and tourism.

The above clearly demonstrates the effects of conflict between governments' tourism policies and those towards national airlines. This is largely due to the view that airline jobs promote technology transfer. It is also because most states hold that the demise of local airlines due to liberalisation will reduce competition leading to a creation of monopolies. The consumer in this respect will not benefit from lower fares.

6.17 General Conclusions

One conclusion to be drawn from the survey is that states are not questioning the merits of liberalisation. It is not a question of whether to liberalise or not. They all have accepted intra-African air transport liberalisation many timid attempts by states at liberalisation or opening up their markets for competition from regional operators. This is either through liberalising some aspects of BASAs by introducing YD principles. However, unrestricted 5th freedom remains the main stumbling block. This is the major point of contention. The debate therefore is not whether but how to liberalise. The pace of liberalisation concentrates the minds and the thinking of most states.

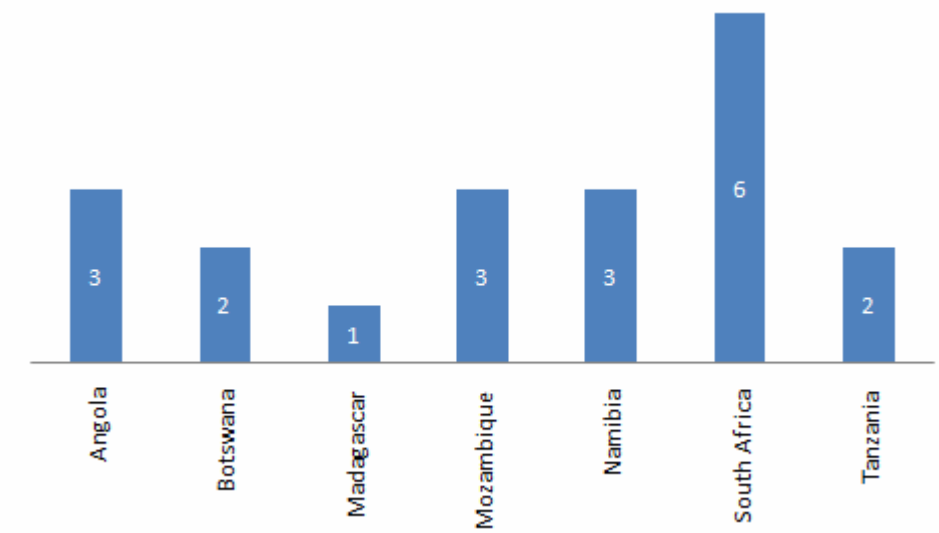
The other point is that while the Study focused on the SADC region in reality the pressure to liberalise is much broader and the competition challenges are at multiple levels. At sub regional level, some countries are members of RECs that have adopted programmes more liberal programmes than YD. For example, the COMESA Legal Notice No. 2 provides for cabotage rights.

This will introduce competition in domestic markets which is currently a preserve of national or local airlines.

6.18 Connectivity

Connectivity among the member states of the SADC (Angola, Botswana, Madagascar, Mozambique, Namibia, South Africa and Tanzania) is rather limited. South Africa is the only country with non-stop services to the other six countries under consideration, while the rest of the countries only have direct flights to at most 3 states.

Number of Countries ✈ Connected with Non-Stop flights



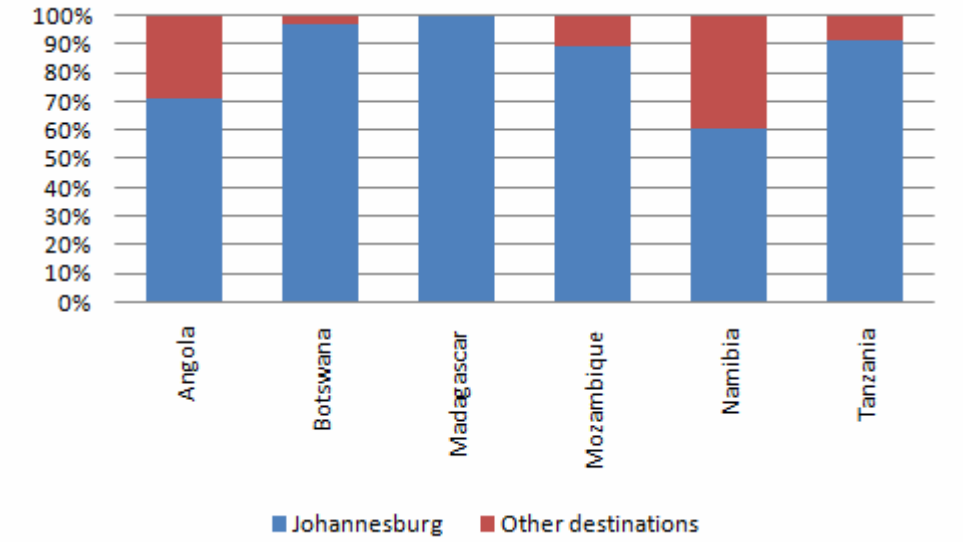
Source: prepared by the consultant with information from the Official Airline Guide
✈ Countries within the region

South Africa is the only country, within the studied sample, that connects to all the other countries. Angola Mozambique and Namibia have direct flights to 3 states, while Botswana and Tanzania are linked to just 2 countries and Madagascar to only 1. South Africa is the only country with non-stop services to all of the rest of the countries of the region. If South Africa was momentarily excluded from the analysis, connectivity within the region would result even poorer, and links between some countries would be virtually eliminated. As an example, a passenger travelling from Luanda to Dar es Salaam would have to fly from Luanda to Maputo, make a domestic connection to Pemba, from where it should take a flight to Dar es Salaam.

With the exception of some flights that originate in Johannesburg, most of the international flights within the SADC operate between the capital cities of both the origin and destination country. This means that, when looking at the secondary cities, one level below the capitals, connectivity is even weaker. Passenger must almost always make one connection to fly from a secondary city to a capital of another country, and if the itinerary involves two secondary cities in different countries it might require 2 or more connections. In addition to the number of flights required to travel to or from a secondary city, the lack of alliances between carriers means that passengers might need to buy two separate tickets, adding another layer of complexity to the process.

South Africa, and particularly Johannesburg, holds a singular position not only because it is the only country with direct flights to the others, but also because it concentrates most of the seat capacity of the entire region. The following graph depicts the relative capacity share between the SADC countries and Johannesburg.

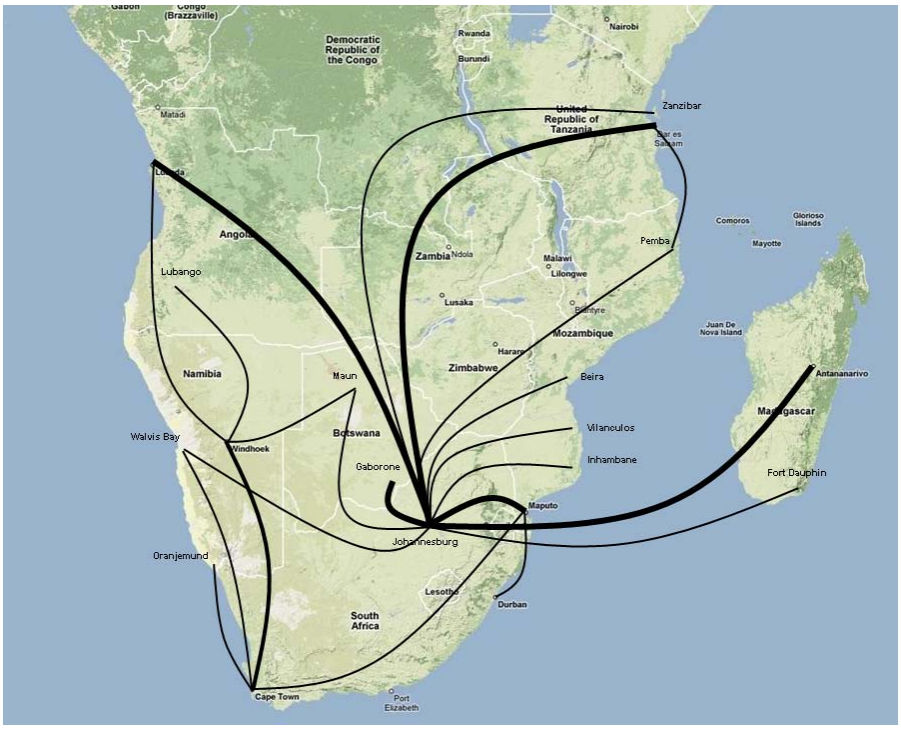
Relative Capacity Share at Each One of the Six Non-stop Destinations Linked from Johannesburg



Source: prepared by the consultant with information from the Official Airline Guide

As seen in the previous graph, and further supporting the poor intra-SADC connectivity statement, Johannesburg concentrates a large share of the seat capacity at every route that is served with non-stop services from Johannesburg. Over 60% of the seats from Namibia are allocated to Johannesburg, and if Cape Town is also considered, South Africa accrues over 85%. Capacity concentration is even more manifest in Botswana, Madagascar, Mozambique and Tanzania, with over 89% of the seats offered to Johannesburg. The following map depicts existing international routes within the SADC.

SADC International routes (wider lines indicate larger capacity share)



Source: prepared by the consultant with information from the Official Airline Guide

From the map, it stands out that routes follow a radial pattern out of Johannesburg, with little linkage between cities in other countries. This is the evident consequence of weak carriers that limit their schedules to O&D traffic into the major markets.

Johannesburg, with the help of South African Airways, is the only true hub of the region, compensating for the lack of direct connections between the other countries. In most cases, in spite of having non-stop flights between any two countries (other than South Africa) the number of frequencies rarely reaches one daily flight. All international flights between Johannesburg and the SADC are operated with an average of at least one daily flight, and normally many more. This might make travelling through Johannesburg more convenient than using a non-stop service, since the former alternative will likely adjust better to the traveller's schedule.

Most of the routes are operated by the flag carriers of the countries on both ends, and capacity is almost always equally distributed between the two airlines. This pattern was particularly common on routes linking South Africa to the other SADC states, suggesting that capacity is closely controlled by the Bilateral Air Service Agreements in order to protect the national airlines.

International services to the SADC are operated by only one carrier in each country (except South Africa). The airlines, TAAG Angola Airlines, Air Botswana, Air Madagascar, and LAM Linhas Aéreas de Moçambique, Air Namibia and Air Tanzania are all state owned. South Africa is the only country where besides the national flag carrier (SAA that is a government owned corporation), a number of smaller, private airlines operate regional services. Most of the national airlines operate old fleets, are undercapitalized and have failed to develop regional or sub-regional networks.

The Yamoussoukro Decision (YD) involves the implementation of an open-skies agreement within the signatory countries, entailing the liberalization of scheduled and non-scheduled air intra-Africa air transport services. By the YD the eligible carriers of the signatory states will gain:

- unlimited traffic rights (up to fifth freedom) within the signatory states
- complete freedom to establish fares (with the only restriction of having to publish fare increases 30 days in advance before they enter into effect)
- ability to set capacity, frequencies and aircraft types according to their needs, with no limitations except for environmental, safety technical or other special considerations
- multiple designation, allowing any number of eligible airlines to operate on a given market

The implementation of these measures will lead to the elimination of artificial barriers put in place by the existing BASAs negotiated between the countries. Restrictive BASAs generally include provisions to protect the national carriers from possible foreign competitors. These safeguards are often implemented by limiting capacity to the foreign carrier, beyond of what can the local airline can absorb. Capacity limitations take the form of maximum weekly frequencies, type of aircraft or total number of seats offered. Another way to restrict competition is by limiting the cities or airports to which foreign carriers can fly to, thereby ensuring that passengers will fly a domestic sector on a local airline, rather than reaching their final destination on a non-stop flight from their country of origin. The end result is poor connectivity between cities, usually set by matching the capability of the weakest, which is the one that determines the bilateral relation.

These restrictions are introduced with the intention of protecting the local airline and their employees but they come at a very high cost, which is often underestimated, or not calculated at all.

Restrictive BASAs might limit the ability of airlines to serve certain markets since they are not included in the defined entry points to a country. This kind of limitations has a direct effect in air connectivity and will require certain passengers to make a connection when they could have had the possibility of catching a non-stop flight.

Capacity restrictions on the other hand place an artificial limit on supply, putting upward pressure on fares. Air transport fares are normally a product of supply and demand, and when a BASA

restricts the capacity (in terms of frequencies or seats) that can be operated on a given market to levels below demand, the airlines can (and do) raise their fares.

While restrictive BASAs are apparently good in their intentions, they impose an enormous cost to the travelling public in terms of weaker connectivity and elevated airfares. In most cases this hidden cost far outweighs the benefits generated by the limitations to competition.

The implementation of the YD will result in the elimination of existing restrictions in terms of designation, access to markets, capacities and fares. Extensive evidence around the world shows that following the removal of said restrictions in the air transport markets, new airlines appear, offering (in conjunction with existing carriers) new routes with lower fares.

As mentioned above, connectivity in the SADC region is limited, with a large share of the flights having Johannesburg either as origin or destination. In the most likely scenario, when YD enters into force, new or existing carriers will increase frequencies in existing routes and add new non-stop services.

It is also very likely that some airlines, especially those that are small and undercapitalized, will not be able to compete with larger, more efficient carriers such as South African Airways. But in any event, competition with South African Airways will be limited to routes to and from Johannesburg, since the African carrier won't be able to carry passengers between two foreign countries without continuing service to South Africa[5]. So, on one hand smaller carriers will face tough competition on routes to South Africa, but on the other they will have opportunities to open new non-stop markets to other destinations.

Although the YD allows multiple designations of carriers, it is still restrictive in that the airline must be effectively controlled by a State Party, or by nationals of the country where it is based, preventing airlines from operating seventh freedom rights (offering services between two foreign countries without continuing to one's own country). Since YD only grants up to fifth freedom rights, an airline could get around that limitation by setting up a subsidiary in another country from which it wants to offer services. But an airline would not be able to open a subsidiary in another country, since the eligibility clause states that airlines must be controlled by nationals of the country where it is based, closing the door for that kind of services.

In summary, while the implementation of YD will place some airlines in a difficult competitive environment, and might even cause some of them to fail, it will remove existing artificial restrictions and generate more competition between the airlines. The increased competition will not only improve connectivity with the introduction of new non-stop services, but will also create a downward pressure on fares, which will benefit the travelling public.

7.0 RECOMMENDATIONS

It is clear from the above analysis that liberalisation has enormous potential benefits for the region. YD implementation will facilitate the growth of trade, tourism and international investment. The industry will grow as an integrated sector while the consumer will have wider choices and benefit from lower prices and improved quality and quantity of services. The wider economy will benefit from enhanced private sector participation, the creation of more jobs and the promotion of the tourism industry. It is therefore strongly recommended that immediate steps are taken to implement YD as decided by the Council of Ministers. The Implementation mechanism should swing into action without delay.

While appreciating the obvious benefits of liberalisation, it is also recognised that inherent structural or other impediments to liberalisation exist within some Member States. It is also recognised that

[5] Serving two other countries not as a continuation of a flight originated or destined at the home base is what is called a Seventh Freedom Right.

some countries have reservations about their commitment to the programme due to costs and negative consequences that may accompany liberalisation.

In light of the above, the following recommendations may be considered to facilitate YD implementation:

Strong Commitment

Strong commitment is required from all Member States to implement the Decision. There should be no soft or back pedalling on their part. To do so would be in conflict with the spirit and intent of YD. In this regard, it is strongly recommended that states should, where applicable, take specific actions that would include the following:

I. Incorporating the YD into domestic legislation.
II. Enacting legislation or implement reforms establishing an autonomous civil aviation authority.
III. Repealing legislation that specifically protects the national carrier from competition or confers upon it monopoly status. Angola, Botswana and other similarly placed States should remove this type of legislation from their statute books.
IV. Incorporating in national legislation and policies air transport liberalisation objectives

Uniform Regulations

YD principles of opening up of access and rights between the respective states will become the national air transport policy for all SADC countries. Upon implementation of YD, these principles governing the exchange of traffic rights, fixation of tariffs, capacity and frequency, designation of airlines and criteria for their eligibility will constitute the basic regulatory framework in place of BASAs. Modalities and rules of application of these principles will have to be detailed to apply uniformly throughout the region. It will be necessary therefore to develop compatible or uniform regulations to facilitate region wide implementation. In addition, harmonised bilateral agreements based on YD should be adopted as an implementation measure bearing in mind that the ultimate objective is the replacement of BASAs.

Strengthening Competition Authority

Anti-competitive practices are a major concern in many States. This can be attributed partly to the fact that institutions created to regulate competition have not been activated. This concern should therefore be addressed by expeditiously, effectively and visibly operationalizing the Regional Competition Authority. States must be assured that competition rules will be enforced stringently once YD had been implemented in full. To this end, both the JCA and the RCA should be constituted at levels where they will have the capacity to determine and punish anti-competitive behaviour. The Authority must be strengthened to ensure strict and pro-active enforcement of competition rules. It must be equipped with sufficient resources to enable it to continuously monitor airline operations and other trends in the industry. In addition, the ability of the Authority to effectively and timely intervene in cases of abuse of dominant, predatory pricing and capacity dumping should be critically evaluated and enhanced by building capacity for undertaking investigations and analysis involved in the determination of such behaviour. To this end, it is essential that support personnel responsible for undertaking investigations, analysis and determination of anti competitive practices must have relevant technical skills and experience. They should also be provided with relevant training and exposure to be conversant with emerging industry trends. This is important as weaker airline(s) may suffer irreparable damage in the case of delays in the adjudication or ineffective handling of complaints filed with the Competition Authority.

Furthermore, any loopholes in the regulations must be sealed. For example, Article 13 (1) of the Joint Competition Regulations provides that in the case of proved infringement, the JCA shall direct the undertaking or association of undertakings concerned to bring such an infringement to and end.

There is apparently no enforcement mechanism or the period within which such infringement should end. Similarly, Article 14 (1) on provisional measures is silent on enforcement or type of such measures.

As for Article 17 (3) on the Review by the Court of Justice and Tribunal, it is assumed that the Party found to have infringed any of the provisions can also apply to the Court for a review of the decision by the JCA. It is not clear as to what happens between the period of the decision of the JCA and that of the Court. The assumption is that the infringement will not continue during this period otherwise the effectiveness of the JCA would be undermined.

There is also need for a co-coordinated approach to avoid any area of conflict or duplication. The COMESA, EAC and SADC Regulations, extend to air transport services in and between the territories of the three regions as specified in Article 3 (2) of the Regulations.

Infrastructure Development

It is clear from the findings that liberalisation will have significant impact on infrastructure development. It is also clear that the problem of inadequate infrastructure affects all Member States. Although it does not constitute sufficient grounds to delay the regional liberalisation process, it is still incumbent upon States acting together to urgently address this problem.
A regional response would therefore be appropriate to facilitate mobilisation of resources that will be required to meet the identified infrastructural developments needs of all countries. A coordinated infrastructure development Plan of Action to achieve balanced regional development should therefore be put in place. The starting point would be to consolidate the existing national plans into a single bankable regional Airport Master Plan. The blue print will be used to solicit financing from national governments and/or co-operating partners.

The Plan among other things will specify current declared capacity and define ultimate capacity of existing airports. It will also indicate requirements of any new airports or potential hubs that could be developed to further improve regional connectivity. There will also be need to build on the programmes underway regarding development of infrastructure and of safety and security equipment systems. In this regard, governments will have to continue their partnership with the private sector in the expansion and rehabilitation of airport infrastructure and air navigation equipment. States could also accelerate liberalisation as additional traffic will also mean additional revenue streams to assist with the financing of such infrastructure development

Adequate infrastructure in all Member States will facilitate all round improvements in air transport services and full liberalisation of the sector.

Safety and Security

The complexities of addressing and monitoring safety standards dictate that harmonizing air safety regulatory framework is of paramount importance in this regard, implementation of the COSCAP program to improve safety of air transport in the region should be prioritized so that safety is not compromised. In addition, Aviation Policies should be amended to ensure that old aircraft are not allowed to enter market. This should include the immediate phasing out of Chapter 2 aircraft.

Strengthening National Airlines

National airlines are considered strategic tools for national development. They are pivotal to the development of tourism and also provide essential domestic services. However, most state owned carriers are less competitive and may not successfully compete in a liberalised market place. They actually face the possibility of being run out of business. In the absence of strong private airlines in most countries, steps need to be taken therefore to ensure that these airlines do not disappear to ensure competition on intra-regional routes and reliable domestic air services. States have a limited

range of options some of which have been tried before with mixed results. They include the following:

I. Recapitalisation

This could be in the form of direct injection of restructuring finances to State owned airlines to facilitate the transition to liberalisation as was the experience in the European Union. This once-off intervention could be treated as exceptional circumstances under Article 7 of the regional competition regulations. Measures being taken by States such as Angola and Madagascar to invest in their national airlines by providing funding for fleet acquisition could fall in this category. Restructuring finances can also be used to prepare airlines for direct privatization.

It is recognised that recapitalisation in one form or another has been tried before without much success. It is proposed therefore that this time around, recapitalisation is conditional and tied to a timetable for achieving the desired result. In this regard, SADC could fix a period of say, one year within which the airline concerned should achieve the desired results. Full liberalisation is to proceed after that period without further extension. This will ensure that the process does not go on forever without end as previously has been the case.

II. Regulatory Support

A provision should be included in the implementation mechanism that would allow states to restrict competition on selected routes to offer continued protection for national airlines for a defined transition period. This could be done through existing bilateral air services agreements by means of a “Transitional Annex” recommended by ICAO for the implementation of preferential measures for developing countries.

III. Removing ownership Restrictions

Most national airlines are financially weak as they do not generate sufficient revenue to fund their operations and expansion plans. Government funding in most cases is not available and local private investors are reluctant to invest in the industry. The only source of capital is foreign private investment. Foreign private investment can be boosted by completely removing ownership restrictions allowing foreign private investors to set up local airlines in respective states. Direct privatisation is still an option although it has been tried before with mixed results. It is however, the only option that has prospects for financial viability.

IV. Commercialisation

Commercialisation of the airlines is one option for transforming these operators into competitive units. Governments must refrain from interfering in the management of airlines. A climate of management stability and commercial freedom must prevail to allow airlines to transition to a liberalised environment.

V. Market Forces

The alternative would be to let these airlines compete in the liberalised market and allow them to respond to this challenge. It is very possible that market forces will challenge them to be more and competitive thereby attracting alliance partnership with stronger airlines in the region and beyond. They could also become more innovative For example; they could provide feeder services or find niche markets away from the traditional routes or mode of operating. Our view is that this is the most viable option and strongly recommends it.

VI. Integrated Approach

Air transport is certainly vital to tourism. For many countries in the region tourists are an important driver of growth, and these tourists require efficient and effective air services. The two sectors are twin pillars and play a pivotal role in the development of the economy and have a potential to grow. They cannot be planned or implemented in isolation, an integrated approach is required. Governments must therefore upgrade any existing platforms to ensure that air transport development is in tune and adequately responds to the requirements of the tourism sector. To this end laws must be enacted that specifically facilitate and address air transport liberalization as a strategy for tourism growth.

Gradual Approach to Liberalisation

The Yamoussoukro Decision has been called a “still-birth aviation treaty” due to the slow and uneven pace of its implementation. This is despite the enormous potential benefits in terms of facilitating the growth of trade, tourism and international investment. The reluctance to wholly embrace and implement it largely stems from fears by most States that competition resulting from a “big bang” approach would negatively impact on their local airline industry. Gradual implementation with selectivity consisting of a transition period is therefore recommended to allow time for less advantaged countries to prepare to compete.

This approach will basically formalise or recognise and take ownership of the existing selective approach where some countries are liberalising at own pace on the basis of YD provisions. It is therefore designed to accord official recognition and give structure and a region wide agreed implementation schedule. In this regard, those countries that are ready and willing will be expected and encouraged to proceed and continue with full implementation of YD. Others or those countries that consider themselves not yet ready will be allowed a formalised and officially recognised fixed transition period. The recommendation therefore is that YD should immediately take off with those countries that are ready and willing and the rest to follow after the transition period.

Implementation during the transition period will include suspension of full application of some YD provisions. For example, selected routes considered critical for the viability of any local carrier could temporarily be exempt from full liberalisation. The restrictions could be in the form of frequency or capacity. Limited 5th freedom traffic rights on routes where third and fourth freedom rights services are provided could also be considered. This will involve placing limits on the application of some YD provisions for a specified period. It is proposed that this is done through existing bilateral air services agreements by means of a “Transitional Annex” based on the ICAO recommended regulatory arrangement for preferential measures for developing countries. The proposed Annex could consist of one or more clauses that would be used when a particular Article would either not take effect immediately or be implemented in a limited way during the transition period.

These transitional arrangements could be for a fixed period agreed by SADC to allow airlines to restructure and reposition to operate in a competitive marketplace. A gradual approach with a managed transition would build confidence in progressively moving to a liberalised regime and to ensure that the results of increasing competition, while not equal, do not become too unequal.

This approach was used by the EU where a period of five years was fixed to ease implementation of the single liberalised European market. This must also have been the thinking of the originators of YD when they provided for a two year transition period. It is also consistent with the position of gradual liberalisation enshrined in the SADC Protocol on Transport, Communications and Meteorology. It is not an attempt to unnecessarily prolong protectionism but rather to remove it in a gradual, progressive and orderly manner to provide comfort to those countries that fear to be disadvantaged by liberalisation.

APPENDIX I: IMPACT OF RECESSION

The Study was undertaken before the full extent of the current financial crisis and economic down turn was known. The global recession has compelled governments to take actions that are overtly and surprisingly inconsistent with their entrenched and professed ideological positions on matters of economic management and governance. Ardent advocates of the free market model are taking actions that could not be imagined one year ago.

According to IATA forecast, the recession expected to last for most of 2009, will impact hugely on the global airline industry. While oil prices will have halved to around US$60 per barrel, passenger traffic is forecast to decline by 3%, cargo to fall 5% and revenues to fall by over 6% in the year. A return to traffic growth above 4% is not expected until 2011. A decline in traffic will lead to cuts in capacity to correspond with air transport demand. African airlines are expected to incur losses of US$300 million. Defending market share will be their main challenge.

The recession is expected to impact on YD in a number of ways. It may provide governments some justification for delaying full implementation. In doing this, they will be following the example of their western counterparts who are busy re-regulating in order to bailout or protect local companies. Also likely to suffer, will be funding for infrastructure and airline development programmes as governments rearrange their budget priorities to survive the deepest recession in recent history. In addition, airline expansion plans will be shelved or scaled down as the weakness in demand will compel them to reduce and not increase capacity. The positive impact of YD in terms of the quality and quantity in air services may therefore not materialise in the short or medium term.

It is likely therefore that States that were covered by the Study could have approached YD from a different perspective if they had the benefit of the full impact of the recession on the air transport industry.

APPENDIX II: FREEDOMS OF THE AIR

1st Freedom: The right to fly over another country without landing.

2nd Freedom: The right to make a landing for technical reasons in another country without picking up/setting down revenue traffic.

3rd Freedom: The right to carry revenue traffic from your own country A to the country B of your treaty partner.

4th Freedom: The right to carry traffic from country B back to your own country A.

5th Freedom: The right of an airline from country A to carry revenue traffic between country B and other countries, such as C or D.

6th Freedom: The use by an airline of country A of two sets of 3rd and 4th rights to carry traffic between two other countries but using its base A as a transit point.

7th Freedom: The right to carry passengers or cargo between two foreign countries without continuing service to one's own country.

8th Freedom: The right to carry passengers or cargo between two or more points in one foreign country. The eighth freedom is also known as cabotage.

9th Freedom: The right to carry passengers or cargo within a foreign country without continuing service to or from one's own country.

APPENDIX III: THE MOZAMBIQUE CASE

Mozambique's formal policy and civil aviation institutional framework combine to protect LAM. The IACM severely restricts the market access of carriers that could represent some kind of competition with LAM. As implemented, policy restricts entry and operation in the international market and partially restricts entry and operation in the domestic market. IACM has also been using technical regulations to protect LAM. For example, a regulation with respect of scheduling was introduced that restricts the capability of competitors to operate during the most convenient hours. IACM introduced this regulation arguing that airport capacity was limited.

Such scheduling aims to keep the competing airline from operating during premium times. In a similar fashion, operating permits for non-regular services that bring high-revenue traffic from South Africa to resort destinations in Mozambique are often delayed or never approved, without apparent justification. Hoteliers and tour operators cite such difficulties as among the biggest constraints on development of the tourism sector.

The study demonstrated that, in 2006, regional air fares were higher in Mozambique than in other regional destinations because of limited connectivity and regulated offers. A comparison of excursion air fares, expressed as cents of U.S. dollar per unit of distance (miles), for travel originating in Johannesburg, demonstrated that Maputo was by far the most expensive destination: 0.70 cents per dollar for mile flown—nearly twice as expensive as Lusaka, Blantyre, and Dar es Salaam. Destinations further away tend to be cheaper on a per mile basis, although the difference were quite astonishing, when compared with Lagos and Lisbon (60 percent and 80 percent cheaper, respectively). For most of these markets, competitive conditions assure travellers from South Africa cheaper fares than when flying to Maputo.
Tickets issued in Maputo for the Maputo–Johannesburg route were slightly cheaper than when issued in Johannesburg. The lower cost is due to lower demand in Mozambique for travel to South Africa; local residents do not have purchasing power. In addition, fares to Lisbon and Harare were significantly cheaper out of Maputo. Fares from Maputo to other destinations, such as Lusaka, Nairobi, and Blantyre, were higher than when purchased in Johannesburg. The reduced offer in these segments inflates fares.

With respect to domestic travel, fares for domestic routes were quite high, because of the limited offer of services and the weak position of domestic operators. Domestic fares published by Air Corridor in the spring of 2005 were compared with the cheapest fares offered by low-cost carriers in South Africa. Domestic fares in South Africa demonstrated to be significantly lower than in Mozambique because South Africa's mature market provides economies of scale that keep costs low and its deregulated environment does not control prices.

Potential Impact of Reform

A liberalized environment would involve local and foreign carriers to be granted with Fifth Freedom rights in the region. This means that all airlines operating in the region could serve most international routes, either connecting to their own countries or serving cities of two other different countries. For example, LAM or TAP could fly from Maputo to Lisbon and enjoy traffic rights between those two cities and Luanda. Foreign carriers could eventually connect Maputo and Johannesburg while serving both cities from points beyond the region. Harare, Dar es Salaam, and Nairobi could also be exploited jointly, and it would be far more profitable if traffic rights between any other points were granted, even for operators originating in Nairobi or Maputo. Traffic rights between any of these points other than the commencing point, would represent a Fifth Freedom right granted to the Mozambican or Kenyan operator.

Mozambique has received an expression of interest from the British Civil Aviation Authority (CAA) for direct flights from London to Maputo. The request was linked to authorization to establish a code share agreement with South African carriers to connect traffic between Johannesburg and

Maputo. British carriers wanted to enter Mozambique to increase capacity to South Africa. Virgin Atlantic and British Airways operated two daily wide body flights to Johannesburg and one additional flight each to Cape Town.

The South African Department of Transport refused to increase the capacity offered because the British apparently are not reciprocating. While the UK's CAA is not posing regulatory barriers to SAA increasing its presence in London, BAA—the operator of Heathrow—was not granting SAA the slots requested. South African's Department of Transport argues that BAA was protecting their market share and minimizing competition and therefore South Africa was refusing to grant BAA increased slots in Johannesburg. In turn, British carriers were seeking to increase their presence in the region by providing services to Maputo and a continuation option to South Africa, increasing the overall capacity offered. Virgin Atlantic would seek an agreement with SAA, while British Airways would pursue a code share with, probably, Comair, the British Airways franchisee in South Africa.

Such a situation can be realized only if more than one carrier is allowed to fly under the South Africa–Mozambique agreement. This will involve revising the agreement to permit designation of multiple carriers, allowing more than one or eventually unlimited designations per party. Deregulating services between South Africa and Mozambique might also see the entrance of South Africa's low-cost carriers into Mozambique. Kulula and One Time were providing very affordable services to domestic destinations in South Africa, and were interested in expanding into neighbouring countries. Liberalized services will improve connectivity with international destinations.

Liberalization will open new connection alternatives within and to points outside the region. Alternatives mean competition, price reductions, and better services. The introduction of low-cost carriers in international routes, however, is possible only under a deregulated scheme of competition free of price controls. Mozambique offers unique opportunities for South African tourists, who are within flight distances of less than three hours. Such a market is ideal for low-cost carriers. Such carriers would boost air traffic, replacing road transportation while expanding the whole market substantially.

While a liberalized environment would represent a stronger competition for LAM on the regional routes, it would gain a significant volume of traffic funnelled into the domestic market. This may be exploited to strengthen the position in other less competitive routes within the region.

Proposed reform

The main concern for foreign travellers in Mozambique is reliability. Most tourists in Mozambique are consumers of high value tourism products. They require reliability and do not tolerate unpredictable service. Tourism is also constrained by the limited offer of flights and the lack of services convenient enough to avoid lengthy connections and surface transport. Foreign travellers also demand suitable accommodation and hotels rooms. At present, accommodation capacity is limited. Foreign tourists in Mozambique are not particularly price sensitive, so price is the least relevant driver of traffic development. In contrast, Mozambicans are extremely price sensitive because they have much less purchasing power than foreign travellers. They are willing, therefore, to tolerate unreliable and scant services.

The current domestic market is poorly served, not properly addressing neither of the two markets. On the one hand, it is unreliable so it does not suit the international market. On the other, it is expensive, so it does not meet the needs of the local travellers.

Foreign traffic in international travel to Mozambique is driven mainly by offer, but is sensitive to the development of domestic traffic. The level of development of domestic traffic will set the demand for foreign travellers arriving in Mozambique. Price is also a factor for some foreign traffic. South Africans, in particular, consider Mozambique a tourist destination because of its natural resources, its convenience and reliability, and its affordability. Local traffic in international travel is driven

mainly by price. While some Mozambican travellers are on business, most are tourists—but all are price sensitive. It should be stressed that price is still a function of capacity offered.

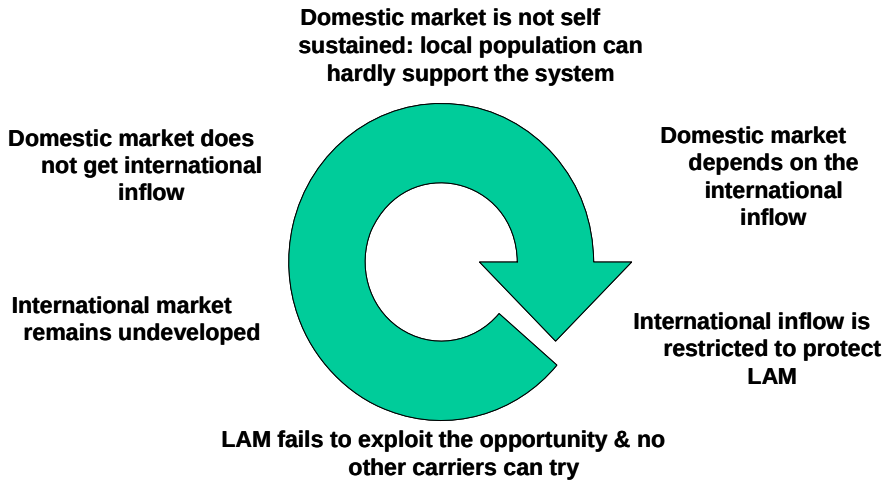
The international market is underserved in the sense that capacity offered is restricted by regulation, and is certainly not enough to meet demand. Such conditions restrict capacity for price sensitive travellers that could in turn help develop the domestic markets.

The vicious cycle

Mozambique's market does not generate enough traffic to make domestic air transport operations profitable, so the market remains underserved, unreliable, and expensive. An increase in international traffic could provide economies of scale to maintain domestic routes and strengthen the financial capability of local carriers, allowing for better services in the domestic market.

Yet the international market is constrained by the government's policy of protecting LAM. Thus, international connectivity is rather poor, limiting access to the country and conditioning the offer and prices. In spite of protection, however, LAM is not developing the international market. The market is still not being properly served, while other carriers are kept away.

With the international market underdeveloped, the domestic market does not get the international inflow required to support profitable operations. Thus, the domestic market remains undeveloped, which conditions the possibility of developing international traffic.

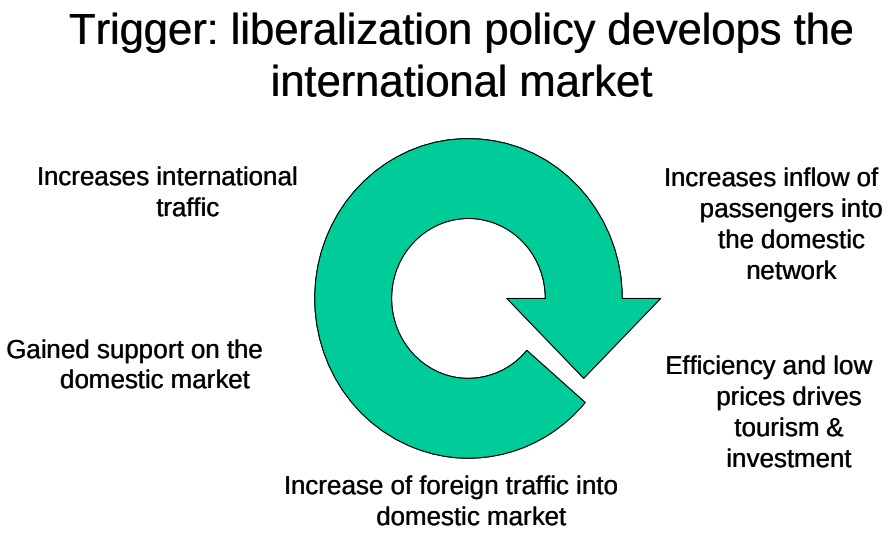


The virtuous cycle

The stagnation of the vicious cycle is due to the policy of protecting LAM in Mozambique's market for international air travel. Liberalizing that market will enable a significant increase in the inflow of foreign travellers. This inflow will enter the domestic air travel system, mainly along the coast and at tourist destinations. This, in turn, will develop the tourism industry and strengthen the domestic air system, allowing for more efficient and less expensive travel.

A more reliable domestic system will then be better able to support tourism and investment, foreign and local. Foreign traffic will then increase because its demands for a better product will be met. The development of the domestic market is a key driver for development of the foreign market.

Like the vicious cycle, the virtuous cycle is recursive: as one factor strengthens the next, it conditions the next factor. In sum, an increase in international travellers entering Mozambique will reinforce the domestic system, making it more reliable and efficient. This will attract more tourists, strengthening even further the domestic network.



Need for a New Policy

Mozambique's policymakers should realize that protectionism is smothering the aviation market and harming the country's tourism sector. Liberalization of traffic rights will boost offer, improve service and efficiency, lower prices, and improve tourists' general experience. The rise in foreign traffic will allow local carriers to better serve domestic routes, while strengthening their financial situation. It should be clear that economic development can be triggered by boosting the tourism market.

The tourism sector, however, requires a reliable network of air travel to ensure an inflow of premium and "mass" traffic. Tourism will in turn bring more traffic, allowing for the coexistence of various carriers serving international and domestic markets. Liberalization does not involve the participation of foreign carriers in domestic routes. While competition in the international market will increase, all foreign carriers will still depend on the domestic distribution of that foreign traffic by Mozambican airlines.

Opportunities will be lost if protectionist policies continue. Foreign airlines will continue to be discouraged from initiating services into Mozambique and connectivity will remain poor. The ultimate consequence will be general economic stagnation and limited development.

The dramatic impact that a liberalized environment will have in the tourist sector in particular, and in the country's economy in general, should be the motivator to generate a change.

The Government of Mozambique should implement the recommendations with respect to the proposed institutional framework. Such arrangement will assure greater participation of the sectors involved will be achieved through the creation of a Board of Civil Aviation.