IMPACT OF AIR TRANSPORT LIBERALIZATION ON TOURISM AND THE WIDER ECONOMY IN MOZAMBIQUE

Maputo, Mozambique
19 March 2014
1. Introduction and context
2. Separation of functions – policy, regulation, investigations, operations
3. Impact of liberalization reforms on the economy
4. Proposed reforms summary
Introduction

- Mozambique has experienced significant economic growth and has enjoyed peace and political stability in recent years.
- Mozambique is among the most attractive destinations for tourism in the region with a variety of natural and cultural attractions.
- However, this sector has not developed its real potential.
- The continued integration of the Southern African Development Community (SADC) countries will improve the aviation market in Mozambique and the region.
- However, it is expected that with this integration, airports throughout SADC partner countries will create stiff competition amongst themselves.
Mozambique has taken important steps towards a liberalized skies policy.

But additional efforts are needed to implement these policies and support more competition and the participation of the private sector.

The Instituto de Aviação Civil de Moçambique (IACM) is the policy maker, the technical regulator, and the investigator of accidents in the sector.

The government of Mozambique still considers LAM as a strategic asset for the country, so Mozambique’s formal policy and civil aviation institutional framework combine to protect the airline.
Bilateral Air Service Agreements

- Mozambique has signed BASAs with 7 countries: Brazil, Malawi, Portugal, South Africa, Swaziland, Tanzania, and Zambia.
- Mozambique has signed MOUs with Angola, China, Ethiopia, Mauritius, Kenya, the UK and Singapore.
- The government of Mozambique is working to negotiate ASA's with Egypt, the UAE, the US, India, Macau, Qatar, and Turkey.
- LAM is Mozambique's designated flag carrier for the purposes of BASAs with foreign countries.
- However, although decisions ultimately lie with the government, LAM staff participates in the negotiations.
BASA with RSA

- Gradual move from a restrictive to a more liberal position.
- Increased frequencies and increased involvement of air operators.
- Dual Designation of Airlines per route and Multiple Designation per country.
- Passenger seat capacity limitations
- Under certain conditions Fifth freedom traffic rights may be exercised by the designated airlines of each contracting party where there are no third and fourth freedom rights being exercised.
Sample of Regional Air Fares from Mozambique (Graph)
In January, 2010, ICAO reported a large number of significant deficiencies with regard to the capability of the civil aviation authorities of Mozambique to discharge their air safety oversight responsibilities.

On April 2, 2011, the European Commission added all airlines registered in Mozambique to its "no fly" or "ban list".

The ban list issue is not related specifically to LAM or any other Mozambican air company, but rather to the regulatory agency, the IACM.

LAM complies with all the above safety regulations and is fully certified.

LAM received the IATA Operational Safety Audit (IOSA) certificate for the first time in 2007, and was then recertified in 2009, and again in 2011.
Current Institutional Framework

Policymaking: Ministry of Transport & Communic.

Regulation:
- IACM

Operation:
- ATC
- Airports
- Airlines
- ADM
- ADM
- LAM et al

Accidents investigation: IACM

Owned and Controlled by the GOM
Proposed Institutional Framework

- Policymaker: Ministry of Transports and Communications responsible for setting policies, including bilateral agreements, tariff regulation, market access, etc.
- Technical Regulator: the IACM responsible for the observance of the safety standards with respect to air transport.
- Operators: The three main operators of the sector are: the airport infrastructure (ADM), the air traffic control services (ADM), and the airlines (LAM) should be Independent and Autonomous entities ideally with Private Sector Participation.
- Accidents Investigator: A body totally independent from any of the other agencies involved in the sector.
Main Airports and Domestic Airlines Operated and Controlled by the Private Sector
## Comparative Market Analysis

<table>
<thead>
<tr>
<th>Parameter</th>
<th>India</th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Civil Aviation Sector Institutional and Regulatory Environment: Separation between Policy, Operations and Regulation</strong></td>
<td>Clear separation</td>
<td>Clear separation</td>
<td>In Transition</td>
<td>No Effective Separation</td>
</tr>
<tr>
<td><strong>Economic Regulation</strong></td>
<td>Effective independent regulatory entity</td>
<td>Independent regulatory entity</td>
<td>Independent regulatory entity</td>
<td>No functional independent regulatory entity</td>
</tr>
<tr>
<td><strong>Provision of Aviation Services (Airlines)</strong></td>
<td>More than Five with a market share lower than 25%</td>
<td>Concentrated but some new participants appearing</td>
<td>Concentrated but some new participants appearing</td>
<td>Highly Concentrated and Protected</td>
</tr>
<tr>
<td><strong>Airline Ownership and Operations</strong></td>
<td>Mainly Private Sector</td>
<td>PPP</td>
<td>PPP</td>
<td>Government</td>
</tr>
<tr>
<td><strong>Provision of Airport Services</strong></td>
<td>PPP/Government in charge of smaller airports</td>
<td>PPP</td>
<td>PPP</td>
<td>Government</td>
</tr>
<tr>
<td><strong>Ground Handling</strong></td>
<td>Several Participants</td>
<td>Concentrated</td>
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<tr>
<td><strong>Domestic and regional Airfares</strong></td>
<td>Low Successful entrance of LCC</td>
<td>Mid-High</td>
<td>Mid-High</td>
<td>High</td>
</tr>
<tr>
<td><strong>General Demand for air travel services.</strong></td>
<td>Mid 104 Passengers per 1,000 habitants in Yr2010 from 25 in Yr2000</td>
<td>Mid 204 Passengers per 1,000 habitants in Yr2012 from 143 in Yr2000</td>
<td>Low 62 Passengers per 1,000 habitants in Yr2012 from 26 in Yr2000</td>
<td>Low 74 Passengers per 1,000 habitants in Yr2012 from 44 in Yr2000</td>
</tr>
<tr>
<td><strong>Current Pax Profile</strong></td>
<td>Business and Leisure (60/40?)</td>
<td>Business and Leisure (70/30)</td>
<td>Business and Leisure (75/25)</td>
<td>Mostly Business (80/20 at most)</td>
</tr>
<tr>
<td><strong>Historical traffic growth vs GDP growth (2000-2012)</strong></td>
<td>&gt;2.50X. The domestic market have 20% CAGR during the last 10 years</td>
<td>1.44X</td>
<td>1.45X</td>
<td>0.97X</td>
</tr>
<tr>
<td><strong>Airport Infrastructure</strong></td>
<td>Insufficient due to last decade domestic market boom. But developing very fast under PPP arrangements</td>
<td>Airports require moderate investment</td>
<td>Airports require substantial investment</td>
<td>Maputo recently expanded and modernized. Other airports require substantial investment</td>
</tr>
</tbody>
</table>
Evidence in Favor of Liberalization

- Strong evidence that air travel liberalization has important benefits for the tourism sector and the economy.
- Studies have suggested that large traffic and growth expansion would result from a reduction in the barriers to entry into the Mozambican air transport market.
- InterVISTAS concluded that traffic growth subsequent to liberalization of air service agreements between countries typically averaged between 12 percent and 35 percent per annum.
- The Single European Aviation Market resulted in incremental 44 million passengers, an increase of over 33 percent as contrasted with historical market growth of 4 - 6 percent per annum. The liberalization resulted in the creation of 1.4 million full-time jobs and a GDP increment of US$ 85 billion in Europe.
Traffic (ADM) forecast based on GDP and population growth (number of passengers)
Conclusions

Liberalization Low-Growth Scenario

Liberalization recommendations are implemented properly and the market responses positively,
Total Contribution of T&T to GDP is 242.2 bn MZN.
This scenario will create 158,811 direct jobs by 2027; this is 49,288 more direct jobs than those created by the Base Case Scenario by year 2027.

Liberalization High-Growth Scenario

Liberalization recommendations are applied properly and on time and the market responds very positively,
Total Contribution of T&T to GDP is 302.2 bn MZN.
This scenario will create 226,709 direct jobs by 2027; this is 117,186 more direct jobs than those created by the Base Case Scenario by year 2027.

It is assumed that with fully implemented liberalization policies, LAM would transform successfully into an efficient and competitive air service provider.
The net present value of a well implemented liberalization plan in the Civil Aviation Industry combined with a well-designed and implemented tourism strategy for Mozambique is between 105 and 165 bn MZN (US$ 3.6 and US$ 5.7 bn).
Main Priorities

1. Ensure a clear separation of the government policy making, regulation, investigation, and operation roles.

2. Make a stronger and independent IACM.

3. Review all the legislation and regulations that disincentive the emergence of more domestic operators.

4. Promote the entrance of new participants in the civil aviation domestic market.

5. Make LAM independent from the Government.

6. Negotiate 5th freedom rights with SADC countries.

7. Provide a quality tourism product at a competitive price.
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First Freedom: The right of an air carrier to fly over another country without landing.

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

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

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

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

Sixth 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.