



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

*Maputo, Mozambique  
19 March 2014*

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# 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.

# Policy and Legal Framework



- 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

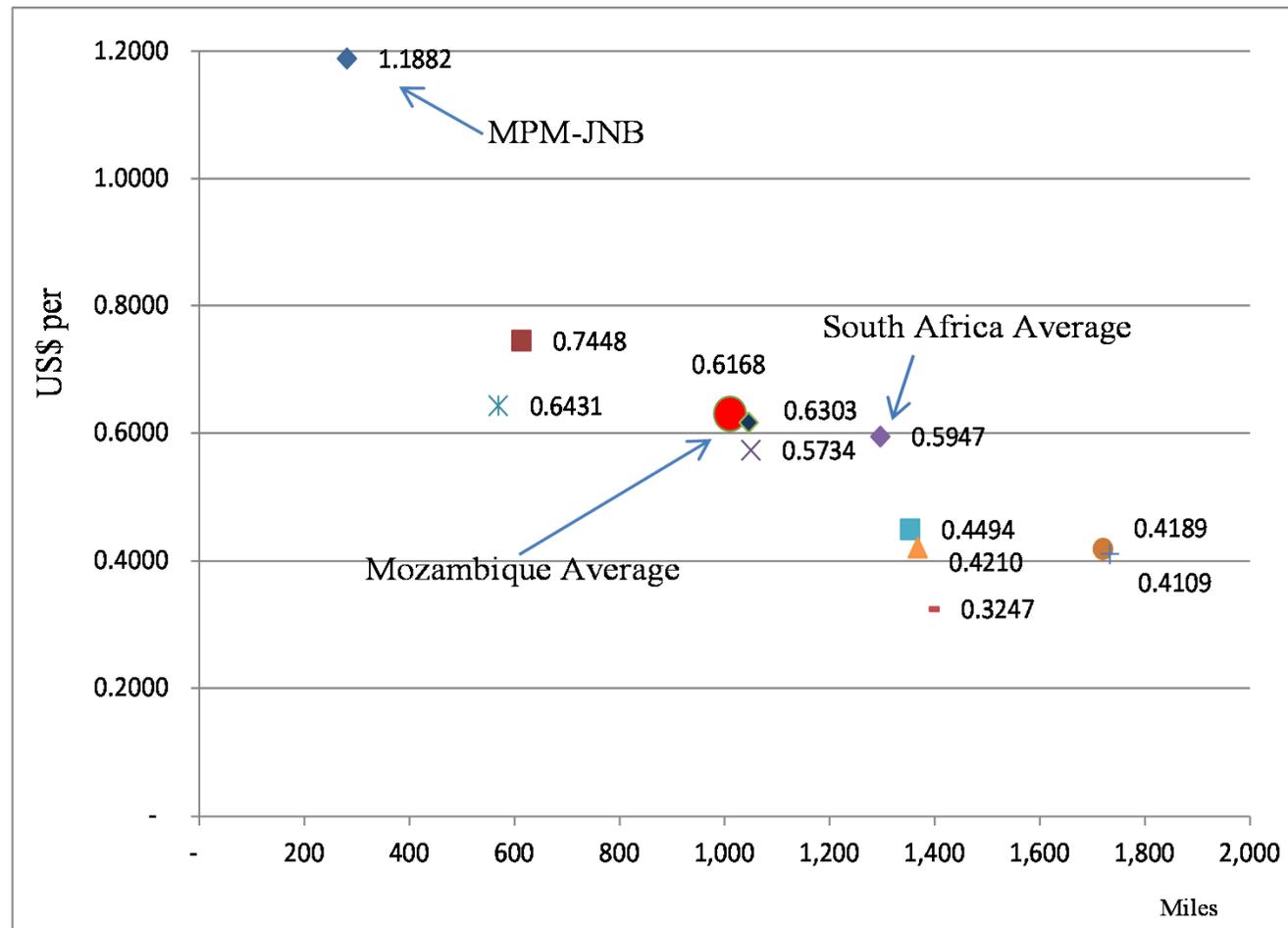


- Gradual move from a restrictive to a more liberal position.
- Increased frequencies and increased involvement of air operators.
- Dual Designation of Airlines per route and Multiple Designation per country.
- Passenger seat capacity limitations
- Under certain conditions Fifth freedom traffic rights 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



*Sample of Regional Air Fares from Mozambique (Graph)*

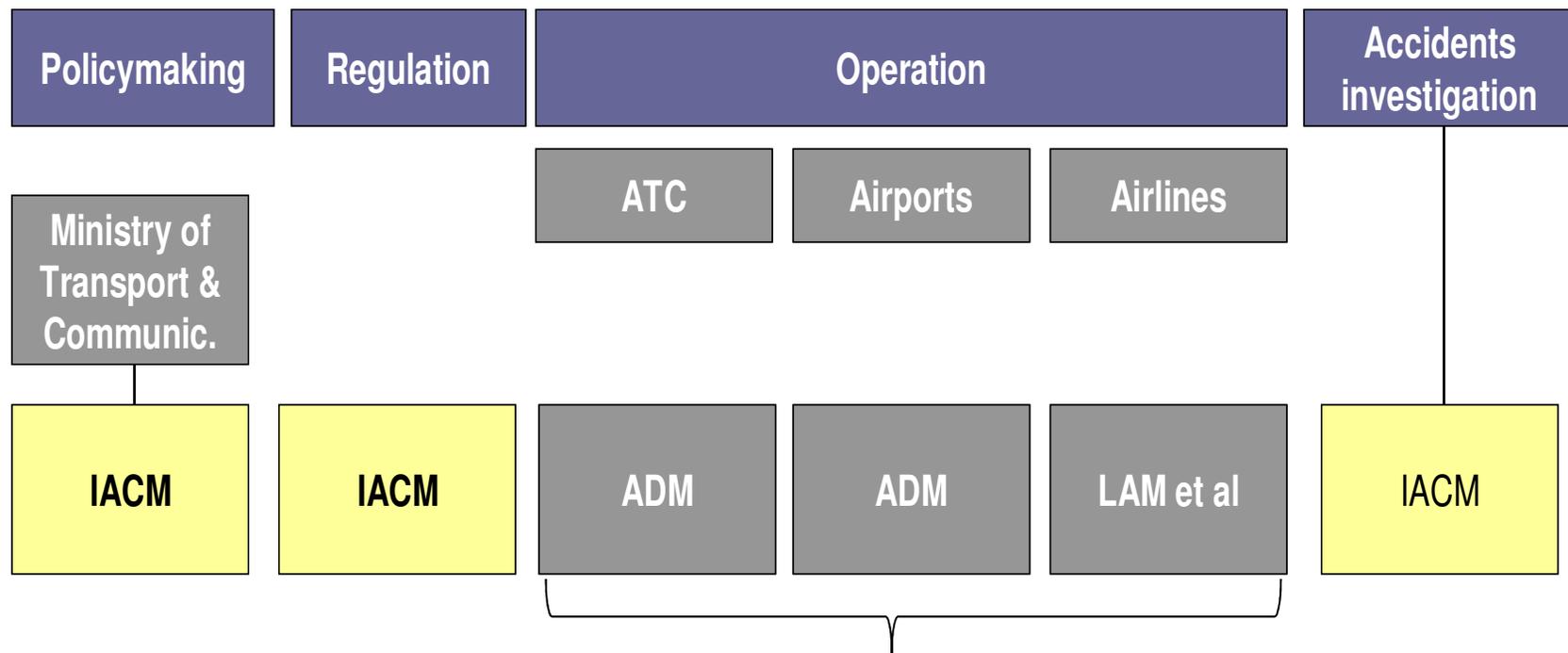


# Safety Oversight Responsibilities



- 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



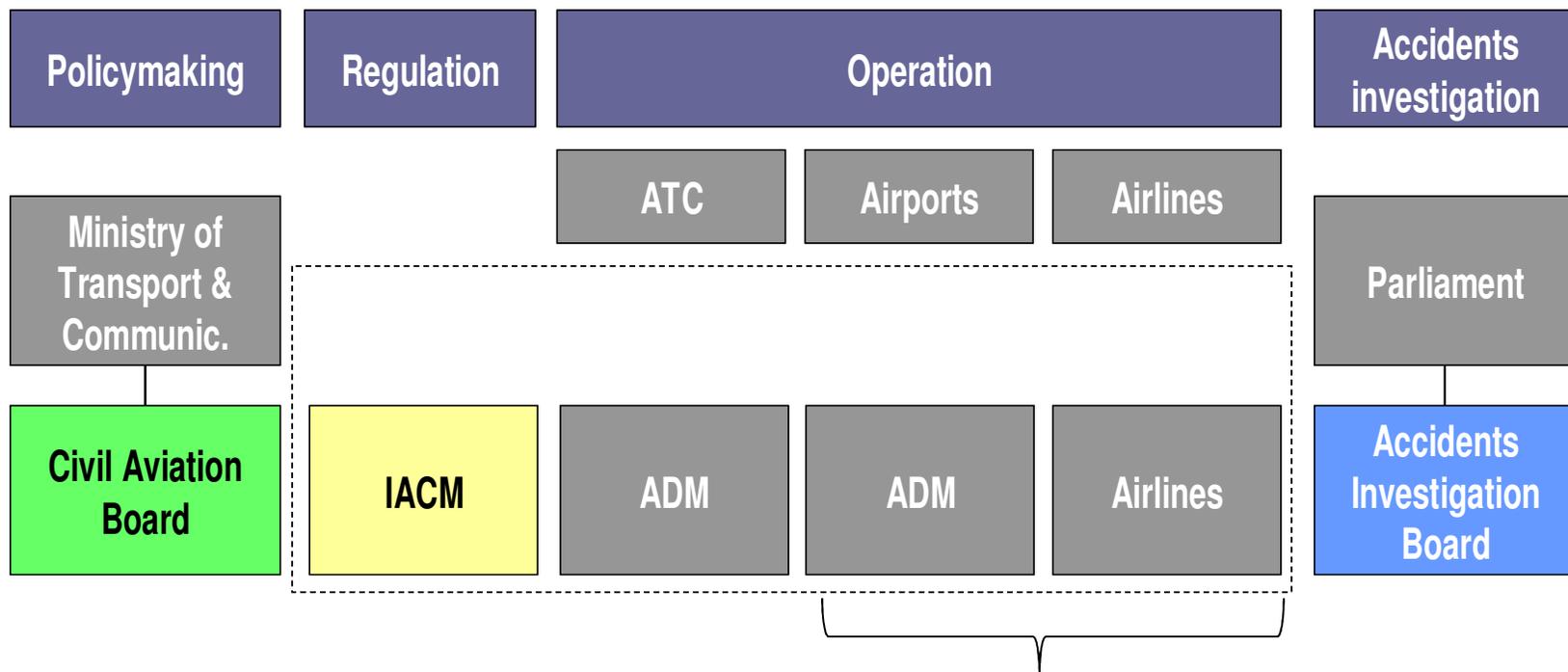
Owned and Controlled by the GOM

# 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.

# Proposed Institutional Framework



Main Airports and Domestic Airlines  
Operated and Controlled by the Private  
Sector

# Comparative Market Analysis



Parameter	India	Kenya	Tanzania	Mozambique
<b>Civil Aviation Sector Institutional and Regulatory Environment: Separation between Policy, Operations and Regulation</b>	Clear separation	Clear separation	In Transition	No Effective Separation
<b>Economic Regulation</b>	Effective independent regulatory entity	Independent regulatory entity	Independent regulatory entity	No functional independent regulatory entity
<b>Provision of Aviation Services (Airlines)</b>	More than Five with a market share lower than 25%	Concentrated but some new participants appearing	Concentrated but some new participants appearing	Highly Concentrated and Protected
<b>Airline Ownership and Operations</b>	Mainly Private Sector	PPP	PPP	Government
<b>Provision of Airport Services</b>	PPP/Government in charge of smaller airports	PPP	PPP	Government
<b>Ground Handling</b>	Several Participants	Concentrated	Concentrated	Concentrated

# Comparative Market Analysis



Parameter	India	Kenya	Tanzania	Mozambique
<b>Domestic and regional Airfares</b>	Low Successful entrance of LCC	Mid-High	Mid-High	High
<b>General Demand for air travel services. (Passengers arriving or departing per 1000 habitants)</b>	Mid 104 Passengers per 1,000 habitants in Yr2010 from 25 in Yr2000	Mid 204 Passengers per 1,000 habitants in Yr2012 from 143 in Yr2000	Low 62 Passengers per 1,000 habitants in 2012 from 26 in YR2000	Low 74 Passengers per 1,000 habitants in YR2012 from 44 in YR2000
<b>Current Pax Profile</b>	Business and Leisure (60/40?)	Business and Leisure (70/30)	Business and Leisure (75/25)	Mostly Business (80/20 at most)
<b>Historical traffic growth vs GDP growth (2000-2012)</b>	>2.50X. The domestic market have 20% CAGR during the last 10 years	1.44X	1.45X	0.97X
<b>Airport Infrastructure</b>	Insufficient due to last decade domestic market boom. But developing very fast under PPP arrangements	Airports require moderate investment	Airports require substantial investment	Maputo recently expanded and modernized. Other airports require substantial investment

# Evidence in Favor of Liberalization

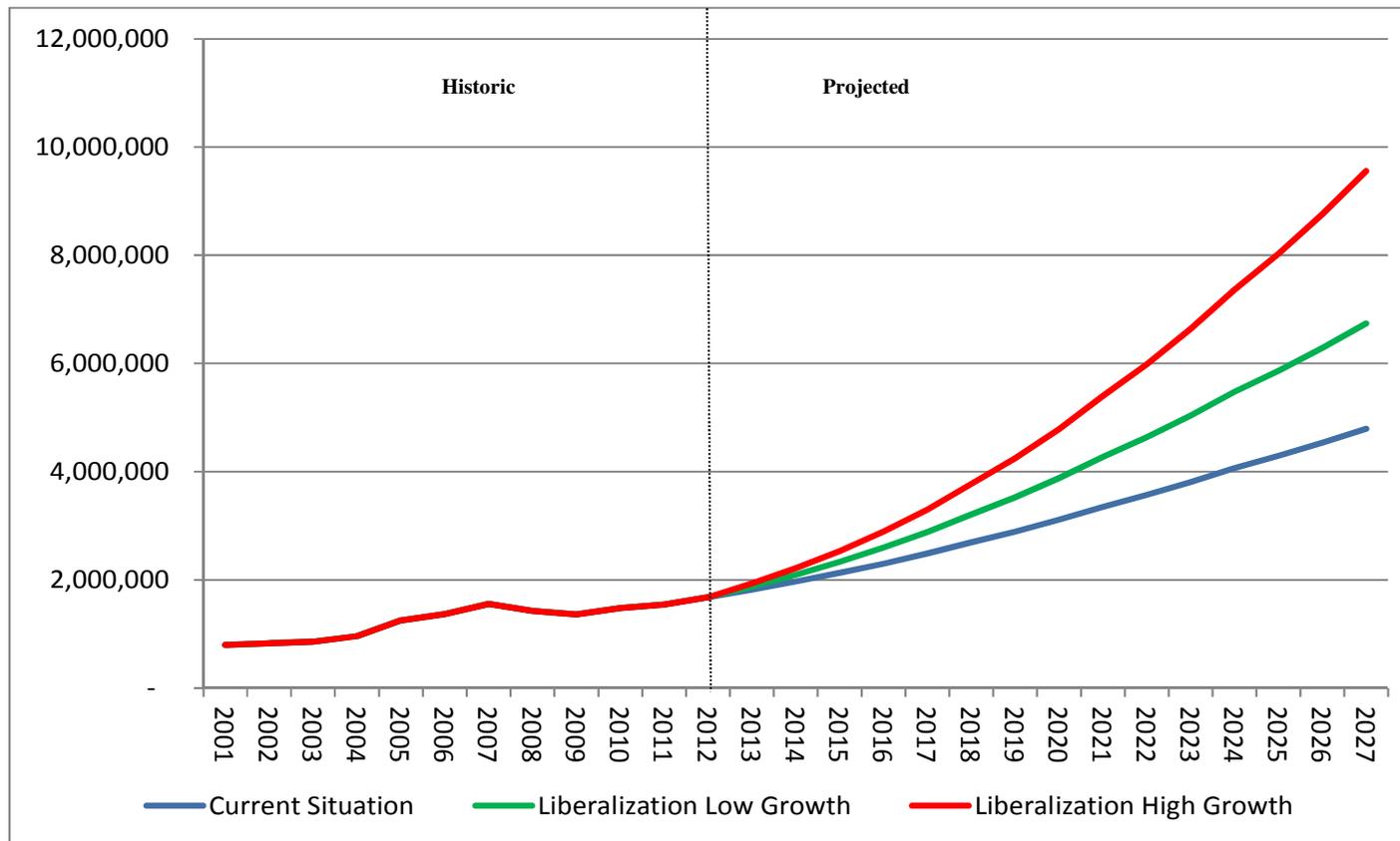


- Strong evidence that air travel liberalization has important benefits for the tourism sector and the economy.
- Studies have suggested that large traffic and growth expansion would result from a reduction in the barriers to entry into the Mozambican air transport market.
- InterVISTAS concluded that 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.

# Long Term Traffic Forecast



## 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.

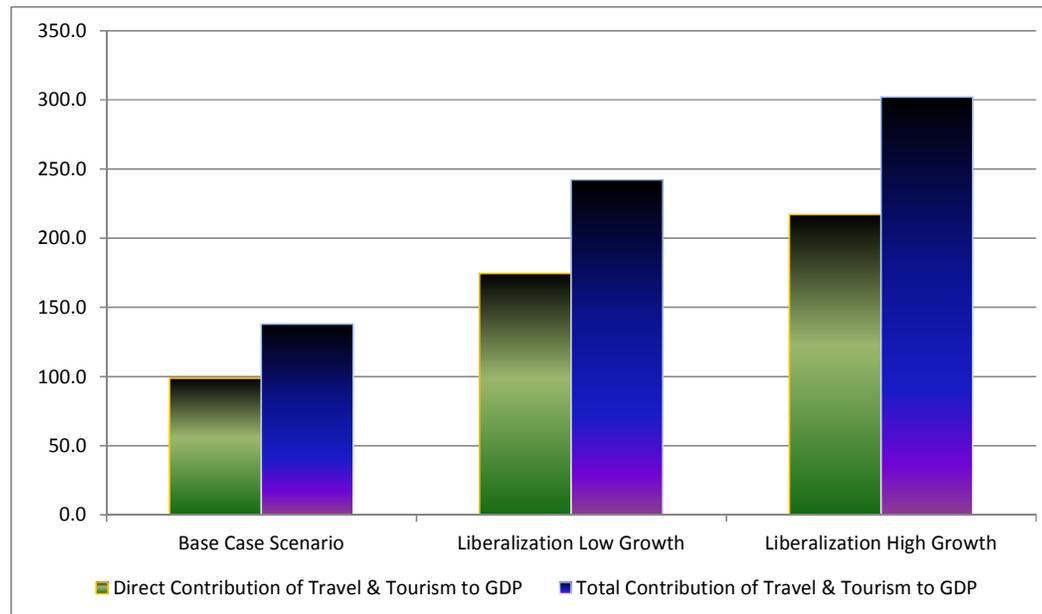
This scenario will create 226,709 direct jobs by 2027; this is 117,186 more direct jobs than those created by the Base Case Scenario by year 2027.

It is assumed that with fully implemented liberalization policies, LAM would transform successfully into an efficient and competitive air service provider.

# Conclusions



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



## Eliminate EU ban

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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**USAID**  
FROM THE AMERICAN PEOPLE

**SPEED**  
For a Better Business  
Environment

# Freedom of the Air

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.