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Liberalization of Mozambique's Aviation Policy

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1. Introduction

Mozambique's export growth is hindered by long distances from tourist-generating centers and by low air-traffic density that causes high air-fares. Protectionist aviation policies severely constrain the development of tourism as well as businesses, including those related to high-value added agriculture and just-in-time manufacturing. This protectionism, for example, pulls customers from the entire travel and tourism chain—from hotels, resorts, car rentals, computer reservations systems, entertainment, and cultural attractions. Further liberalizing air transport will do more to increase receipts from hotels and other tourist and business activities than the income of the national airline. A more liberalized air transport sector will give Mozambique's products greater access to international markets, reduce the cost of doing business in and with Mozambique, and improve the business enabling environment in general. It will also attract more tourists, which, in turn, will create more jobs and more exports.

This report for the Confederation of Mozambican Business Associations (CTA) examines issues related to air liberalization from the point of view of users of the air transport industry—tourists, businesses, cargo movers—and makes concrete recommendations on reducing costs, improving efficiency, and introducing more competition without compromising air safety. The report was carried out under the Trade and Investment Project (TIP) and the Mozambique Tourism Project (MTP), which both support USAID's Strategic Objective 7 (SO7) and three intermediate objectives: (1) increased market access, (2) improved enabling environment, and (3) increased capacity in labor-intensive enterprises. The recommendations are intended to help CTA advocate further reform of the air transport sector. Section 2 examines the current policies for the aviation sector; Section 3 presents an overview of the air transport sector; and Section 4 presents proposed liberalization steps.

2. Policy and Institutional Framework

Mozambique's aviation policy is the result of formal policy and the institutional framework. No reform will be fully effective unless it addresses both components.

FORMAL POLICY

Mozambique's civil aviation policy is defined by the Resolution 40/2002, of May 14 2002, which replaces Resolution 5/96, of April 2, 1996. In contrast to Resolution 5/96, the latest resolution does not deal with market access criteria, but states the need to adjust the number of operators to demand in the domestic market. Regulation 39/98, of August 26, 1998, defines market access for different segments: regular international (intercontinental and regional), regular domestic, and non-regular. With regard to route allocation, it calls for "listening" to the incumbent before giving any other operator access to a particular market. This provision is motivated by the protectionist spirit that characterizes policy in Mozambique. What "listening" means is not entirely clear, but reform will not be possible if those who might be negatively affected by it must first approve it.

Route access is defined by bilateral air service agreements (BASA) between Mozambique and its trading partners. By regulation, carriers are designated by public tender, on a route per route basis. Rights are granted on exclusive terms, for periods of up to 10 years, and are renewable by public tender. For intercontinental operations, each country designates only one carrier to fly the route—no other carriers can fly the route.

Regional operations (international in Africa) are also allocated by route on an exclusive basis. This prevents the development of competition in specific markets and facilitates collusion between airlines (one per country). Multiple carriers may be allocated a route if doing so is in the public interest. Regular domestic operations are assigned per route by concession on the basis of public tenders; concessions may be renewed every five years. The same regulation provides the possibility of granting exclusive rights, subject to public interest. Licensing for nonregular operations are obtained by tender, and are often checked based on the "compatibility" of the service with the market.

As we can see, formal policy is limiting market participation to one carrier per side in each market. This prevents true competition, especially when airlines end up colluding to share the

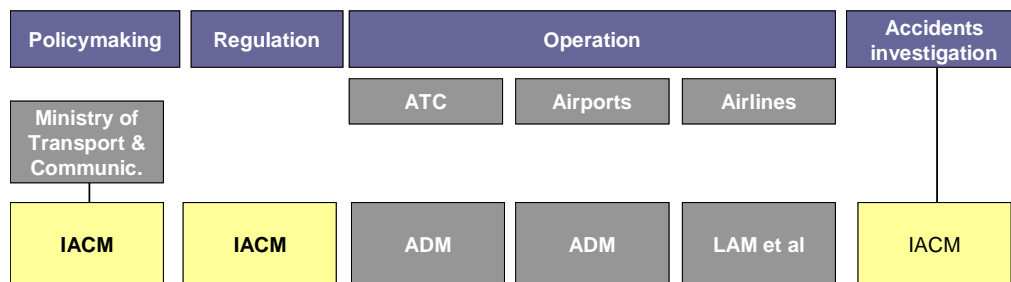
market. Reform of this policy will entail revising regulations to allow each country to designate as many carriers as it wishes.

INSTITUTIONAL FRAMEWORK

Policymaking and regulatory functions are concentrated in Mozambique's civil aviation institute, the Instituto de Aviação Civil de Moçambique (IACM). Decree 41/2001, which created the institute, makes IACM responsible for regulating procedures of policy application and the legal framework (Article 6, 1a and n), technical regulation (Article 6), and accident investigation (Article 6g). 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. Figure 2-1 shows Mozambique's civil aviation framework.

Figure 2-1

Current Institutional Framework of Civil Aviation in Mozambique



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. This lack of separation of functions creates conflicts of interest. Proper control and regulation are assured only when carried out by an independent body, purely technical, and at arm’s length from policymaking. Given the current arrangement, technical regulation can be manipulated and the impartiality and credibility of the regulator eroded. In addition, guaranteeing an impartial judgment of events requires that the body responsible for investigating accidents (and incidents) not be the same as the regulator or the policymaker. Otherwise the investigator ends up being judge and party when regulatory issues are involved in an accident.

EFFECTIVE POLICY

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. For example, scheduling of competing

airlines to LAM, as is the case of South African Airways, may be planned to depart 90 minutes apart from LAM, arguing airport operational matters. Such scheduling aims to keep the competing airline from operating during premium times. In a similar fashion, operating permits for nonregular 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.

Comment [mm1]: Makes no sense. Please rewrite.

INSTITUTIONAL REFORM ISSUES

Separate Policymaking from Technical Regulation. The technical regulation of the sector must be independent of the policymaker to guarantee the independence of technical judgment. Concentrating both functions in one body facilitates manipulation of regulation for the sake of policy. With the IACM as both policymaker and technical regulator, policy may be affecting the judgment of the technical regulator.

Separate LAM from Policymaking and Technical Regulation. Policymaking and technical regulation should be performed at arm's length from any regulated service provider. Because LAM is a state-owned company, technical regulation and policymaking are not independent of the airline.

Strengthen the Technical Regulator. The technical regulator should be financially independent, capable of hiring independent professionals and paying them competitive salaries and providing them with continuous training and specialization. This is the only way to ensure a truly independent and effective regulatory body.

Devise New Legal Framework. Mozambique's legal arrangement for aviation is a patchwork of regulations and decrees; no comprehensive aviation law exists. The air transport sector requires a new law, one that entails redesigning the institutional framework to ensure the separation of functions and the allocation of responsibilities.

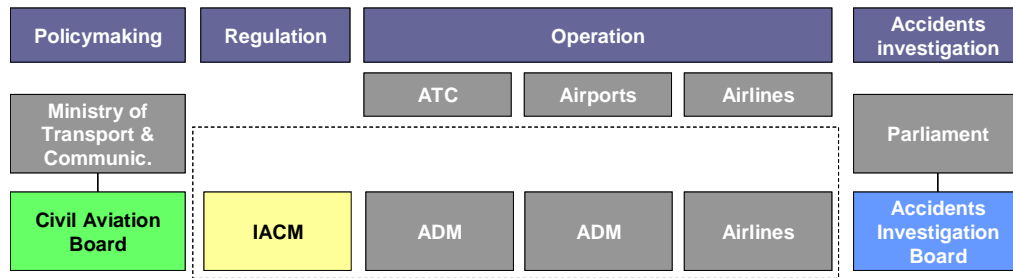
PROPOSED INSTITUTIONAL ARRANGEMENT

The proposed institutional framework strictly separates the functions of policymaking, operations, technical regulation, and investigation (Figure 2-2).

Policymaker. The Ministry of Transport and Communications should make policy, including bilateral agreements, tariff regulation, and market/route access.

Technical Regulator. IACM should ensure observance of air transport safety standards. These standards emanate from local laws and the norms and recommendations of the 18 Annexes to the Chicago Convention (1944) of the International Civil Aviation Organization.

Operations. The sector's three operational components of airport infrastructure, air traffic control services, and airlines should each should be handled by separate entities. ADM is controlling airport infrastructure and air traffic control and the airline, LAM, is a state-owned company.

Figure 2-2*Proposed Institutional Framework of Civil Aviation in Mozambique*

Accident Investigation. Aviation accidents and incidents should be investigated by a fully independent body. In many countries, investigations are handled by a body linked directly to the president or congress, bypassing any ministry and all other bodies with direct or indirect responsibility in the sector. In Mozambique, accident investigation could be assigned to a separate body that reports to the Parliament, with capabilities to oversee the functions of any other party potentially involved in an accident (i.e., policymaker, regulator, operator). In some countries, accident investigation is assigned to a body that oversees safety for all means of transport, not just aviation.

3. Sector Overview

AIRPORT INFRASTRUCTURE AND OPERATIONS

Mozambique has three international airports—Maputo, Beira, Nampula—and six main airports: Inhambane, Quilimane, Tete, Lichinga, Pemba, Vilanculus (not by definition but by traffic). It also has 10 secondary airports, 6 military airfields, and almost 300 additional landing strips. The country's airport infrastructure needs serious equipment upgrades and improvements, but these should not limit traffic development. The main constraint on development of the air transport market is policy. The market is there to be developed; limitations lie in the possibility of deregulation.

Seven operators perform scheduled services on international, regional, and domestic routes:

Carrier	International	Regional	Domestic
LAM	√	√	√
Air Portugal (TAP)	√		
Air Corridor			√
STA			√
South Africa Airlines (SAA)		√	
Pelikan Air		√	
MEX		√	

Regular Services

LAM uses its own aircraft to provide domestic services and regional services, mainly to South Africa. By special arrangement with Air Portugal (TAP), it operates a code share flight between Maputo and Lisbon. TAP operates two frequencies between Maputo and Lisbon, with an intermediate stop in Johannesburg, without traffic rights between Mozambique and South Africa. All frequencies are operated with Airbus A340-300. TAP is the only carrier performing intercontinental flights. LAM was flying to Lisbon through a wet lease agreement with LuxAir, but the lease ended in the spring of 2005. Thus, connectivity to intercontinental destinations is poor; Maputo is linked to only one point outside the region.

Mozambique's bilateral agreement with Portugal dates from 1977; modifications have addressed capacity. The agreement requires each party to designate a single carrier. The Portuguese authorities are interested in obtaining traffic rights from Maputo to Johannesburg, and vice

versa, for TAP's flights that link South Africa and Mozambique with Portugal. Those operations are known as Fifth Freedom rights,¹ meaning the entrance of a new contender on the Maputo–Johannesburg route. TAP is also interested in obtaining traffic rights (Fifth Freedom) for flights between Luanda and Maputo. With such rights it could combine the operations of both former Portuguese colonies in a single flight and possibly offer flights between the two African countries. The operation of flights with the possibility of stopping in Luanda and Johannesburg, as intermediate stops between Maputo and Lisbon, could provide the market build up to grant daily frequencies between Europe and Mozambique, as well as additional connections in Africa.

Comment [mm2]: This is not at all clear. How can operations be rights? Do you mean that if they obtain and exercise such rights they will become competitors? Rewrite please.

Mozambique signed its bilateral agreement with France in 1991. The agreement allows for two weekly frequencies between Paris and Maputo but is not being implemented because French carriers are not interested in flying to Mozambique. Nevertheless, France's regional presence is significant. Air France operates more than 10 wide-body weekly frequencies to Johannesburg.² It also operates flights to Antananarivo, Comores, Reunion, and Mauritius. The merger of Air France and KLM involves the previous participation of KLM in Kenya Airways. Consistently, the French authorities have expressed non immediate interest to operate direct flights to Mozambique.

Comment [mm3]: What is nonimmediate interest? And why consistently?

South Africa is the strongest international link from Mozambique. Mozambique's bilateral agreement with South Africa, last revised in 2003, allows only one carrier per party to fly between Maputo and Johannesburg: LAM and South African Airways (SAA). The agreement allows South African carriers to fly from points in South Africa to Beira, Maputo, Nampula, Pemba, and Vilanculus. In turn, operators designated by Mozambique can fly from points in Mozambique to Cape Town, Durban, Johannesburg, Nelspruit, and Lanseria. SAA operates 11 weekly frequencies between Johannesburg and Maputo with Airbus A320s. It has expressed interest in three more frequencies to offer two daily flights. At present, the request has not been granted.³

Another South African carrier, Pelikan, serves the city of Vilanculus out of Johannesburg, using turboprop 50-seaters. The carrier Mex provides services to Dar es Salaam.

Nonregular Services

The operation of nonregular services is carried out on a case-by-case basis. The policy limiting the number of entry points for international flights is preventing the flexibility that tour operators require and request. Most requests for special services come from South African tour operators interested in bringing small groups of tourists to shore resorts. Operators of tour packages, including hoteliers and owners of general aviation craft, are concerned about the difficulties they encounter when requesting special permits for particular flights. Permits are often delayed or

¹ See Appendix B.

² With 747-400 and A340-600

³ New meetings where these issues may be revised have already been scheduled for February 2006.

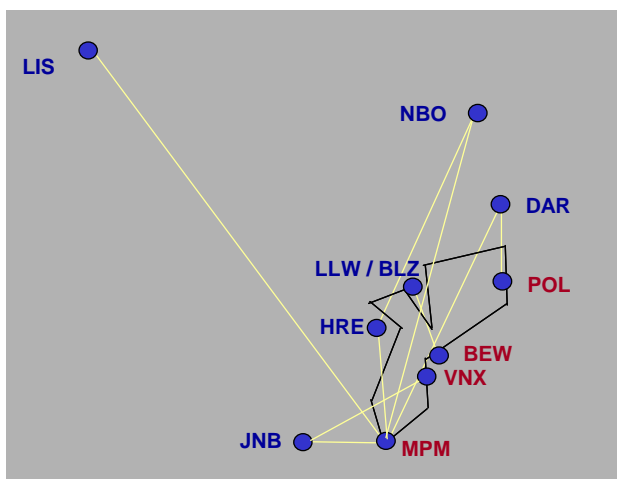
never granted without explanation. The consequent unreliability and unpredictability limit the development of the tourism sector.

CONNECTIVITY

Few flights link Mozambique with international cities (Figure 3-1). The only intercontinental link is between Maputo and Lisbon. In Africa, it is linked to Johannesburg, Harare, Nairobi, and Dar es Salaam. Beira is linked to Lilongwe and Blantyre in Malawi and occasionally, Dar es Salaam. Pemba receives flights from Dar es Salaam that may continue to Maputo. In addition, Vilanculus receives frequent flights of South African tourists from Johannesburg.

Figure 3-1

Current Connectivity with International (Regional and Intercontinental) Points



COST OF AIR TRAVEL

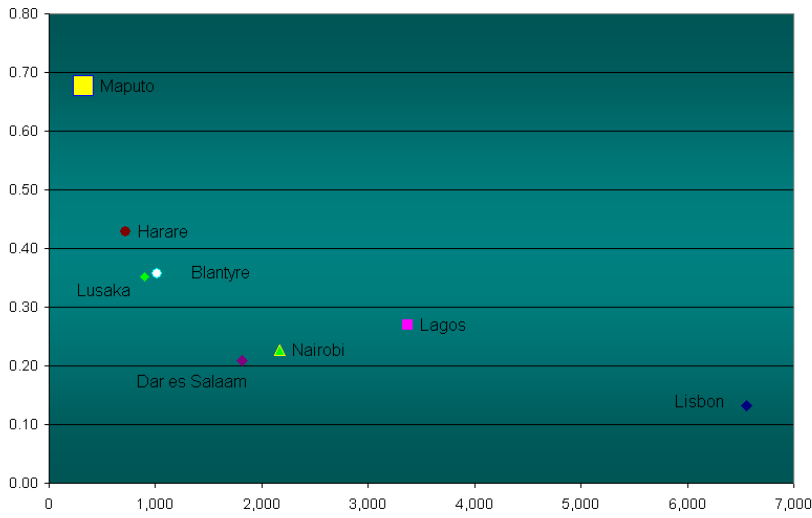
Regional Fares

Regional air fares are higher in Mozambique than in other regional destinations because of limited connectivity and regulated offers. Figure 3-2 compares excursion air fares, expressed as cents of U.S. dollar per unit of distance (miles). For travel originating in Johannesburg, Maputo is 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 is quite astonishing, when compared with Lagos and Lisbon (60 percent and 80 percent cheaper, respectively). Why is this so? For most of these markets, competitive conditions assure travelers from South Africa cheaper fares than when flying to Maputo. Maputo is still a restricted market, where capacity is controlled as a matter of protective policy. Figure 3-3 compares fares for travel originating in Maputo.

Figure 3-2

Air Fares from Johannesburg to Selected Destinations

Cents of US\$ / mile (excursion return fares), by city pair distance

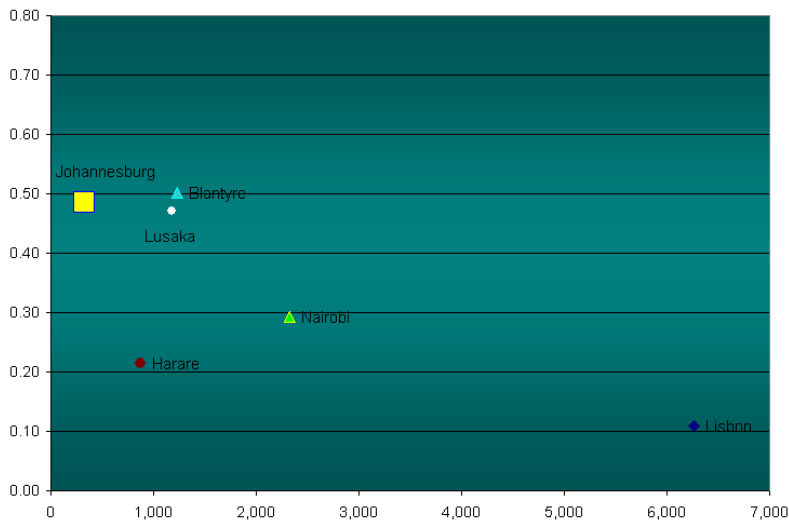


Comment [mm4]: Figures 3-2 through 3-4 are not legible. Green background must be removed from original file.

Figure 3-3

Air Fares from Maputo to Selected Destinations

Cents of US\$ / mile (excursion return fares), by city pair distance



Tickets issued in Maputo for the Maputo–Johannesburg route are 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 are significantly cheaper out of Maputo. Fares from Maputo to other destinations, such as Lusaka, Nairobi, and Blantyre, are higher. The reduced offer in these segments inflates fares.

Comment [mm5]: Than when purchased where? Johannesburg?

Domestic Fares

Domestic fares for travel in Mozambique are very high because of the limited offer of services and the weak position of domestic operators. Table 3-1 compares domestic fares published by Air Corridor in the spring of 2005 to the cheapest fares offered by low-cost carriers in South Africa. On Figure 3-4, the blue dots mark the fares per unit mile between selected points in Mozambique. The pink dots represent fares for traveling in South Africa on low-cost carriers' flights. The figure shows the cheapest available fares in both markets. Domestic fares in South Africa are 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.

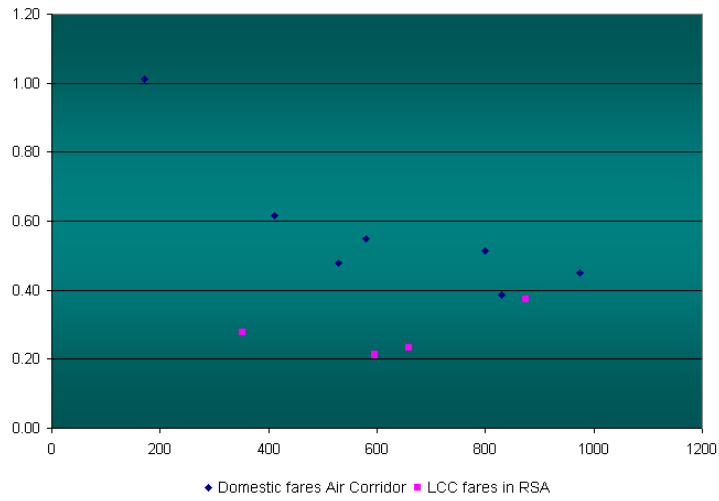
Table 3-1

Lowest Available Domestic Fares in South Africa and in Mozambique, Excursion and Low-cost Carrier Return Fares (cents of US\$/mile)

Domestic fares Air Corridor								
from MPM	Y class	RT	excursion	RT	miles	\$/mls (Y)	\$/mls (exc)	Airlines
Beira		322		252	528	0.61	0.48	
Quelimane		410		321	830	0.49	0.39	
Nampula		504		412	800	0.63	0.52	
Pemba		555		438	975	0.57	0.45	
from Beira	Y class	RT	excursion	RT	miles	\$/mls (Y)	\$/mls (exc)	Airlines
Quelimane		220		172	170	1.29	1.01	
Nampula		322		252	410	0.79	0.61	
Pemba		403		318	580	0.69	0.55	
Maputo		322		252	528	0.61	0.48	
LCC fares in RSA								
from JNB		RT		miles		\$/mls	Airlines	
East London		127		597		0.21	Kulula	
East London		125		597		0.21	1 Time	
Cape Town		325		874		0.37	Kulula	
Durban		98		352		0.28	Kulula	
Porth Elizabeth		153		658		0.23	Kulula	

Figure 3-4

Lowest Available Domestic Fares in South Africa and in Mozambique, Excursion and Low-cost Carrier Return Fares (cents of US\$/mile)



4. Proposed Liberalization

INTERNATIONAL OPERATIONS

If foreign and local carriers were granted and exercised more Fifth Freedom rights they could serve two points in two countries other than the country of the airline. 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 is linked to authorization to establish a code share agreement with South African carriers to connect traffic between Johannesburg and London. British carriers want to enter Mozambique to increase capacity to South Africa. Virgin Atlantic and British Airways operate two daily wide body flights to Johannesburg and one additional flight each to Cape Town.

The South African Department of Transport is refusing 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—is not granting SAA the slots requested. South African's Department of Transport argues that BAA is defending policies by their slot allocation mechanisms. In turn, British carriers are 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.

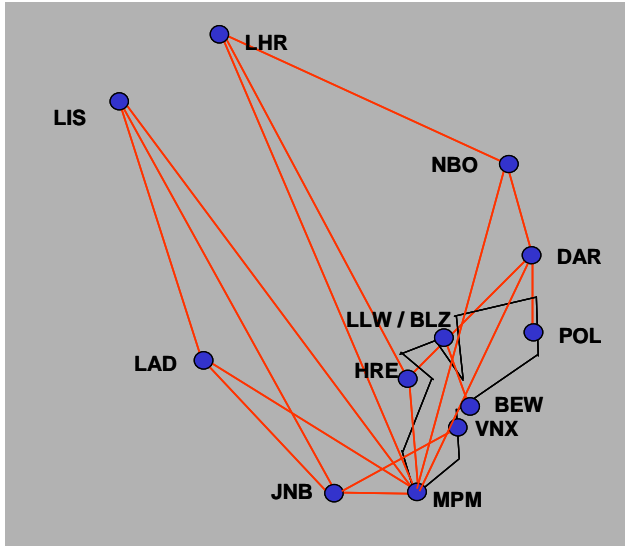
Comment [mm6]: What does this mean? To defend a policy by means of a slot mechanism? What policy is being attacked or threatened? Do you mean that BAA is merely protecting a British carrier or what?

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 are providing very affordable services to domestic destinations in South Africa, and are interested in expanding into

neighboring countries. Liberalized services will improve connectivity with international destinations. Figure 4-1 shows connecting points that can be achieved by making policy more flexible.

Figure 4-1

Improved Connectivity under a Liberalized Situation



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.

REASONABILITY FOR REFORM: TRAFFIC DRIVERS

Comment [mm7]: I don't understand this title. What does "reasonability for reform" mean?

Domestic Market

The main concern for foreign travelers 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 travelers 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 travelers. They are willing, therefore, to tolerate unreliable and scant services.

International Market

Foreign traffic in international travel 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 travelers 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 travelers 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 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 travelers. 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. As has been already explained, 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 travelers entering Mozambique will reinforce the domestic system, making it more reliable and efficient. This will attract more tourists, strengthening even further the domestic network.

WAY FORWARD

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.

LAM COMPETITIVENESS PROGRAM

Under the new policy conditions, LAM will need to build its ability to meet the competitive challenges of an unregulated market. It will need assistance in developing a comprehensive business plan that positions it under the new scheme of liberalized competition, and relative to competitors. It will also need assistance in developing its own skills so it will no longer require protection. Thus, the business plan will involve reallocation of resources, a marketing strategy, and a comprehensive capacity-building program. That program will involve studying alternatives for private sector participation and a change in ownership structure. Or it could consider a management contract to provide the competitiveness required without the implications of a change in ownership structure.

Appendix A. Policy Note

INTERNATIONAL AND DOMESTIC AIR TRANSPORT

International traffic in Mozambique is restricted to a capacity that is insufficient during peak demand times, and highly priced most of the year. Obscure regulations and arbitrary decisions limit market access and result in high fares on international and domestic routes. This stifles general economic growth, particularly growth in trade, tourism, and foreign investment.

Liberalizing air transport will help every aspect of the economy. Lifting restrictions on market access will allow foreign carriers to offer more capacity to more destinations, reduce air fares, and improve connectivity. This will allow a greater influx of foreign travelers, business travelers, and tourists, who are most sensitive to flight availability and price. This influx will boost traffic in the domestic network, improving connections for tourists. A better domestic network will ameliorate the welfare of the local residents, who will also be able to travel more easily and less expensively for tourism and business purposes. Raising competition and facilitating cross-border investment by lifting all restrictions on ownership and control and market access will cut travel costs, making it affordable for more people. This will promote creation and production by permitting more transference of technologies and ideas. In addition, lower travel costs will promote tourism as a source of foreign currency and export of services.

Meanwhile, rising competition in Europe is spilling into Africa, where carriers are contending for the most interesting markets. Virgin Atlantic's recent investment in Nigeria is aimed at increasing capacity offered on the Lagos–London route, exploiting available capacity offered for the Nigerian carriers as part of a reciprocal agreement. This shows that cross-border investment can facilitate the creation of local carriers with greater presence in the international market.

The future incorporation of South African Airways (SAA) into the Star Alliance⁴ scheduled for March 2006 also represents an opportunity for Mozambique. With SAA in the alliance, passengers from the United States will begin using SAA to get into Africa instead of connecting through Europe. In addition, SAA, TAP, and Lufthansa change how they cooperate in seeking more presence in the Southern part of the continent and a wider distribution network.

⁴ The Star Alliance is today formed by Air Canada, Air New Zealand, ANA, Asiana Airlines, Austrian, bmi, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, Spanair, TAP, Thai Airways International, United, US Airways and VARIG.

With respect to domestic air transport, the Government of Mozambique should encourage the private sector to provide air services by facilitating business creation, easing taxation, and lifting bureaucratic obstacles. Subsidies may be justified where an air link is essential for economic development. Policymakers need to bear in mind that domestic operations will be crucial for the development of tourism.

In devising policy reforms, the Government of Mozambique should be guided by the protocol of Yamoussoukro Declaration of a new African air transport policy of 1988. The declaration committed African states to integrating their airlines through the liberal exchange of air traffic rights, use of an unbiased computer reservations system, and other joint aviation infrastructure developments. Policy reform should aim to

- Promote domestic operations under the highest standards for safety, reliability, efficiency, and affordability;
- Liberalize aviation as a key to general development, to connectivity to international destinations, and to tourism development.
- Promote market access and cross-border investments by replacing the "ownership and control notion" for the "principal place of business;"
- Promote competition that develops Mozambique as a prime tourist destination.
- Safeguard, where necessary, national interests.
- Encourage the participation of Mozambique in the air transport market.
- Promote general aviation as essential to the national air transport system

REFORM OF THE INSTITUTIONAL FRAMEWORK

Mozambique's institutional framework concentrates functions that need to be separated. IACM is the technical regulatory body responsible for all aspects of aviation safety. Policymaking should be transferred to the Ministry of Transport and Communications, which defines aviation policy and negotiates bilateral agreements on traffic rights. IACM should no longer be responsible for economic regulation of airlines (i.e., market access, air fares) as this is a policy function. IACM is also responsible for investigating accidents and incidents. To guarantee impartiality, investigatory bodies should not also be regulators. Institutional reform should aim to

- Separate the functions of policymaker (which includes economic regulation), technical regulator, operator, and the accident investigator;
- Support creation of an independent technical regulator with financial independence to guarantee the proper staff compensation, training and promotion, and use of state-of-the-art technologies
- Continue the application of the aviation policies set forth by ICAO on its 18 Annexes to the Chicago Convention of 1944 and its updates, guaranteeing the highest standards in aviation safety.

Appendix B. 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.