

PREFACE

It may be recalled that Tanzania Air Operators' Association was formed on October 2002, to act as a forum for air operators to discuss issues that affects their welfare as business enterprises. Also TAOA is expected to act as a platform from which the members as a group tackle or engage the various institutions in and out of the government in the effort to ensure that air transport remain as a growing and a rewarding enterprise to all that are involved in it.

One of the issues that the members of the association are always aware is the pervading presence of regulatory authorities, some benevolent and some not. In order to define more accurately the reality of the air operators' interaction with authorities that are closest to the industry, the TAOA leadership has approached BUSINESS ENVIRONMENT STRENGTHENING FOR TANZANIA- ADVOCACY COMPONENT (BEST – AC) and obtained a grant to appoint consultants to study the regulatory environment of air transport in Tanzania, to identify key issues that prevent Tanzania based – air operators from flourishing and make recommendations on the measures that need to be taken to create a favourable business environment for a safe and vibrant air transport industry.

I now have the pleasure to present the results of those efforts to you.

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Chairman, TAOA
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1. ACKNOWLEDGMENTS

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TABLE OF CONTENTS

	<i>Page</i>
Preface	1
Table of Contents	3
Abbreviations	4
Executive Summary	5
Section 1. Introduction	6
Section 2. Air Transport Fundamentals	10
Section 3. Air Transport Regulatory Environment	12
Section 4. Air Transport Infrastructure	17
Section 5. Finance	23
Section 6. TCAA Institutional Issues	28
Section 7. Training	29
Section 8. Improving TAOA Effectiveness	31
Section 9 Conclusion	32
Section 10 Recommendations	33

Attachments

1. List of people seen by the consultants
2. Table of Recommendations
3. EU– Morocco Air Transport Agreement
4. Chile International Air Service Policy.

ABBREVIATIONS

AIP	Aeronautical Information Publication
AME	Aircraft Maintenance Engineer
ANS	Air Navigation Services
AOC	Air Operator's Certificate
ASL	Air Service License
ATCL	Air Tanzania Ltd.
ATI	Air Transport Industry
ATISP	Air Transport Infrastructure Service Providers
BASA	Bilateral Air Services Agreement
CATC	Civil Aviation Training Centre
CAA	Civil Aviation Authority
CTL	Coastal Travels Ltd.
DCAZ	Department Civil Aviation Zanzibar
DGCA	Director General of Civil Aviation
EAC	East African Community
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
JNIA	Julius Nyerere International Airport.
KADCO	Kilimanjaro Airport Development Company
MID	Ministry of Infrastructure Development
NT	National Transport Policy
PRECISION	Precision Air Services
RWY	Runway
TAA	Tanzania Airports Authority
TANZANAIR	Tanzania Air Services Limited
TCAA	Tanzania Civil Aviation Authority
TWR	Aerodrome Control Tower
TXW	Taxiway

EXECUTIVE SUMMARY

Civil aviation has great potential to contribute to economic development in Tanzania. Starting from a low base, growth is now rapid but market activity levels are below what they should and could be. TAOA has identified the regulatory environment and institutions as being issues. These issues generally relate to the law and government policy, rather TCAA itself. TCAA as a safety regulator is well regarded. This study considers that safety and security policy and regulation should be TCAA's pre-dominant focus. Careful analysis of cost and benefits of rules and regular consultation would assist TCAA and the firms regulated. In respect of economic regulation the government may wish to revisit its international air transport policy and review remaining economic regulation of domestic air services.

Air transport infrastructure emerged as an important issue for air operators with major airports generally providing a service well below customer requirements in spite of high charges. This is not a regulatory issue. Rather, it is a governance issue relating to the airports' performance in relation to customer requirements. The study suggests greater decision-making autonomy to airports, greater transparency by the airports, better information disclosure, requirements for effective consultation with customers matched with greater accountability for the delivery of better airport performance. The government needs to ensure that airports focus on their core business of delivering the services desired by customers cost-effectively instead of the current short term focus on generating revenue and a long term focus on major new investments which rely on external/donor financing. More radical but very challenging airport governance reforms are suggested for evaluation. To assist TCAA's prime regulatory function, the study suggests that TCAA's Air Navigation Services should be set up separately from TCAA.

Each of the agencies i.e TAA and TCAA should clearly and transparently identify their costs of service provision, function-by-function, and how the costs would be best allocated to the customers responsible for the costs. Each agency should deliver assurance that they are and will be operating cost-effectively and that any investment will generate benefits to customers in excess of costs. Charges in excess of full cost recovery for both regulation and service provision would be more appropriately labeled as taxes and accounted for in accordance with normal tax and fiscal policy. Given the high aggregate charges the study urges the government to carefully consider whether the current tax element of aviation charges is the best way of generating revenue given available alternatives.

SECTION 1: INTRODUCTION

Air Transport in Tanzania

The air transport industry (ATI) is an important catalyst for the growth of country's economy. Measured on its own, its contribution to the GNP appears rather small.¹ However when its impact on other sections of the economy are assessed, its effects are considerable. In tourism, for example, during the course of this study, it was often stressed that air transport underpins tourism. Air transportation is used for bringing in the tourist to Tanzania and also delivering them to the final tourist attractions. Without air transport tourism would be at a much lower scale. The terms of reference identified the importance of civil aviation to Tanzania's economic development and the sustainable improvement in living standards of citizens. International linkages on one hand and providing flexible domestic transport services in situation where land transport is problematic on the other hand are the principal benefits from the best possible aviation sector. Getting the best policy settings, their translation into regulations and efficient associated state implementation institutions has been shown to make a difference to outcomes². This includes ATISP, air navigation services as well as airports, along with regulatory agencies.

Tanzania is a large country. It rises from the coast of the Indian Ocean in the east to the shores of Lake Tanganyika in the west. Most of its heavily populated and productive areas are on its borders with neighbouring states. The railway system in Tanzania is in the process of rehabilitation and it will take a long time to resume its usefulness in transporting of passengers. While improving from year to year the road network is still far from meeting full demands of the populace for rapid and reliable transport. Therefore air transport comes on its own as the premier means of moving business people, traders, executives and decision makers quickly and effectively across this vast country. It is perhaps the only viable way to move tourists with limited time and resources from the Northern Circuit to the Southern Circuit or Zanzibar and vice versa.

Opportunities in Air Transport in Tanzania.

There are considerable opportunities for development in the air markets in Tanzania:

- a) Tourism in all forms in the country is growing at a rapid rate. This is being fuelled by building of new lodges and safari camps in the game parks and reserves; and the rapid construction of new beach hotels and resorts in Zanzibar and Mainland coastal areas.
- b) The slowly emerging middle class is using flying as a regular means of travel as much as possible.
- c) Mining industry is making heavy demand on air transport for normal travel of its personnel and for prospecting.
- d) East African Community especially after its expansion to include Burundi and Rwanda is increasingly opening opportunities to Tanzanian firms to extend their wings to neighbouring states.

Challenges facing the Air Transport Enterprises.

These are many and they include the following:

- a) Low per capita income in Tanzania resulting into very few people with the disposable income to use flying as a means of travelling on business or holidays
- b) Poor air transport infrastructure in Tanzania reducing the extent of flying e.g. very few airports are available at night, and increasing costs when operating on poorly maintained aerodromes..

¹ TCAA "The Civil Aviation Industry Master Plan Concept" October 2007 p.3, for example.

² "Air transport infrastructure: the roles of the public and private sectors" World Bank 2005

- c) Competition with surface transport increasing when new roads are built e.g Dar es Salaam to Dodoma, Tanga, Moshi and very soon to the south of the country; or when regular marine services are available e.g. Dar es Salaam to Zanzibar.

ATI in Tanzania is growing at approximately twice rate of the rest of the economy. GNP is growing at 5 to 6 % annually and air transport is growing at 12 to 15% per year in terms of passengers. The following tables illustrate the recent trends.

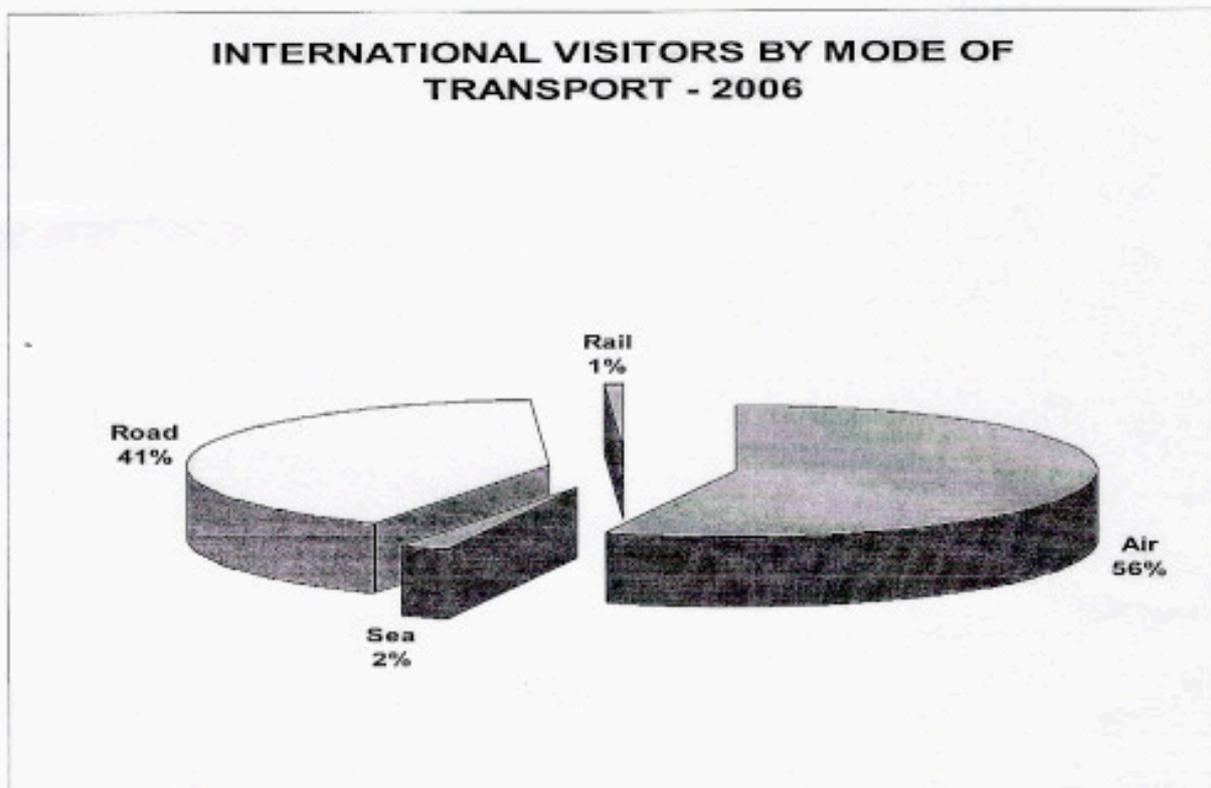
STATISTICS OF PASSENGERS AND AIRCRAFT MOVEMENTS FOR YEARS 2000 -2006

PASSENGERS								
	Years	2000	2001	2002	2003	2004	2005	2006
Major Airports								
	Julius Nyerere	568,631	603,066	650,124	756,104	953,844	1,030,179	1,148,941
	Kilimanjaro	155,221	154,413	146,611	149,143	238,252	29,015	369,892
	Zanzibar	207,955	201,885	259,186	239,207	360,284	417,515	487,268
	Mwanza	91,133	104,226	106,692	133,009	159,608	177,641	193,103
Total Major Airports		1,022,940	1,063,590	1,162,613	1,277,463	1,711,988	1,654,350	2,199,204
Other Airports		183,881	206,281	193,912	243,728	248,078	518,169	270,923
Total Passengers		1,206,821	1,269,871	1,356,525	1,521,191	1,960,066	2,172,519	2,470,127
CARGO								
	Years	2000	2001	2002	2003	2004	2005	2006
Major Airports								
	Julius Nyerere	13,130.7	15,651.6	11,949.5	11,945.0	14,561.7	15,950.0	16,445.0
	Kilimanjaro	1,601.9	2,468.8	3,038.5	3,011.8	4,149.2	5,422.0	4,721.0
	Zanzibar	1,400.1	970.4	1,100.6	883.8	453.6	741.0	2,977.0
	Mwanza	22,585.8	20,679.7	12,153.9	13,570.1	18,843.3	13,470.3	6,624.9
Total Major Airports		38,718.5	39,770.5	28,242.5	29,410.7	38,007.8	35,583.3	30,767.9
Other Airports		740.4	418.5	397.2	3,841.2	4,669.1	4,653.7	3,756.1
Total Cargo		39,458.9	40,189.0	28,639.7	33,251.9	42,676.9	40,237.0	34,524.0
MOVEMENTS								
	Years	2000	2001	2002	2003	2004	2005	2006
Major Airports								
	Julius Nyerere	28,597	31,309	36,975.0	44,320.0	49,797	49,293	53,109
	Kilimanjaro	12,892	12,197	11,619.0	12,737.0	15,720	15,639	17,133
	Zanzibar	16,184	17,124	24,160.0	25,068.0	29,293	28,641	30,972
	Mwanza	13,658	14,793	9,537.0	11,885.0	14,777	15,414	14,473
Total Major Airports		71,331	75,423	82,291.0	94,010.0	109,587	108,987	115,687
Other Airports		41,490	40,213	41,495.0	43,288.0	39,574	46,065	45,079
Total Movements		112,821	115,636	123,786	137,298	149,161	155,052	160,766

Table 3: Visitor Arrivals by Mode of Transport 1997- 2006

Mode of Transport	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total	359,096	482,331	627,325	501,669	525,122	575,296	576,198	582,807	612,754	644,124
Air	160,000	311,406	364,575	311,612	315,073	316000	320000	257,195	330,587	359,395
Sea	35,000	7,995	6,442	15,081	21,005	20000	25000	23,681	10,315	14,171
Road	149,996	152,251	220,300	155,116	173,290	214000	215000	297,302	265,852	265,505
Rail	14,100	10,679	36,008	19,860	15,754	25000	16000	4,629	6,000	5,053

Source: Ministry of Natural Resources and Tourism, Tourism Department Basis data from Immigration

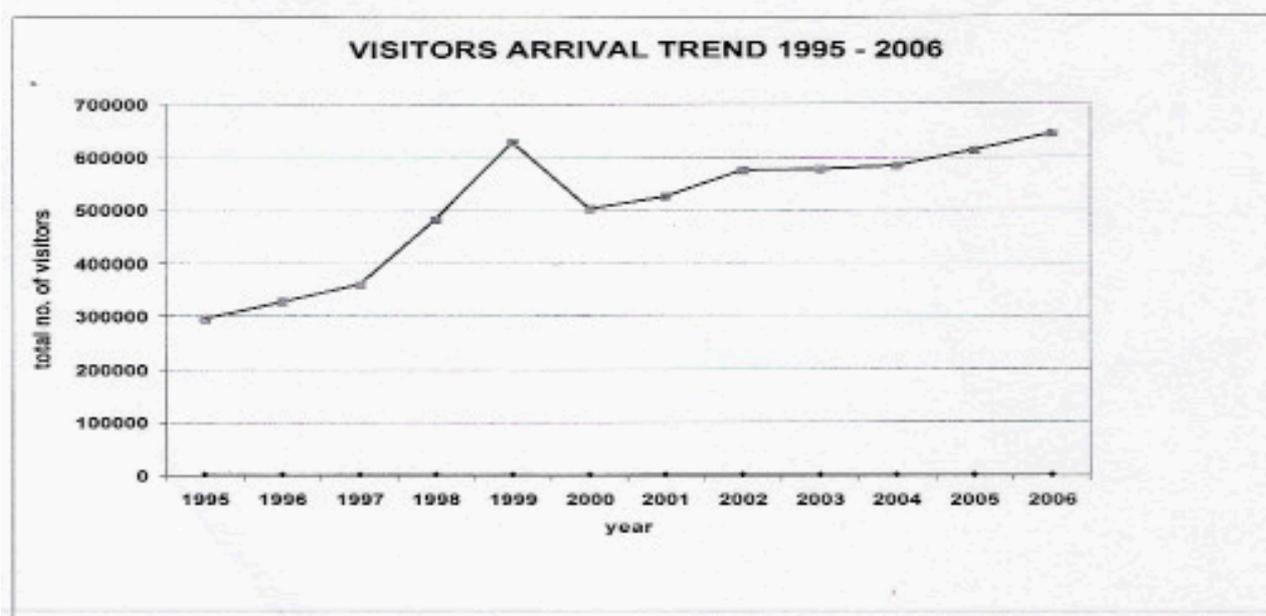


DEMAND ANALYSIS

Table 1: International Visitor Arrivals and Receipts in Tanzania, 1995 - 2006

Year	Number of Visitor Arrivals	Annual Change (%)	Receipts (US \$ Mill)	Receipts (TZS Mill)
1995	295,312	12.89	259.44	155,663.00
1996	326,188	10.46	322.37	194,220.00
1997	359,096	10.09	392.39	235,446.00
1998	482,331	34.32	570.00	370,500.00
1999	627,325	30.06	733.28	586,624.00
2000	501,669	-20.03	739.06	628,201.00
2001	525,000	4.65	725.00	665,115.00 ¹
2002	575,000	9.52	730.00	705,618.00 ²
2003	576,000	0.17	731.00	759,070.40 ³
2004	582,807	1.18	746.02	812,676.89 ⁴
2005	612,754	4.8	823.05	929,058.84 ⁵
2006	644,124	5.12	862.00	1,079,137.00 ⁶

Source: Ministry of Natural Resources and Tourism, Tourism Department.



³ Mean Exchange Rate for 2003: US\$ = TZS 1038.4

⁴ Mean Exchange Rate for 2004: US\$ = TZS 1089.35

⁵ Mean Exchange Rate for 2005: US\$ = TZS 1128.8

⁶ Mean Exchange Rate for 2006: US\$ = TZS 1251.9

SECTION 2: FUNDAMENTALS OF AIR TRANSPORT

Characteristics of Air Transport Undertakings

All modern transport undertakings have similar characteristics in matters of capital, risks and public sensitivity to their operation. However in air transport these factors are found in greater intensity than in other types of transportation or, perhaps, any other business open to the public. Many of the businesses are small. Some international airlines are large. The Tanzania airline market is mainly in private hands with only Air Tanzania Company Ltd remaining in state ownership. While the newly operational Consumer Consultative Committee has received some complaints about airline performance, the level of complaints is still low. There will always be problems in the air services markets but international as well as local experience would suggest that a de-regulated commercial air services market deliver better outcomes than the traditional highly regulated state-provided alternative.

Capital Intensity

Airlines are capital intensive in as much as it requires a lot of money to buy an aircraft, to maintain it and to operate it especially in the environment like that of Tanzania. Perhaps it is due to this reason that there are very few air transport firms that are wholly owned by Tanzanians. The hurdle of paying the full price of a desired aircraft can be mitigated by wet or dry leasing with or without the option to purchase the plane involved. However, over the long run, this is more expensive than the outright purchase.

Attendant Risks.

In the perception of the general public flying is not without risks. In the experience of many aircraft operators in Tanzania the flying business is full of risks. These include unfenced runways in the game parks allowing wild animals to wander on to the runways, poorly maintained movement areas at many aerodromes increasing the risk of damaging undercarriages in pot hole or ingestion of foreign objects etc.

Perishable Product

On any flight aircraft seats and cargo space are perishable products. If they are not sold on that particular flight the revenue is lost forever.

Market structure

Within Tanzania the air transport industry can be characterised as having the following structure:

- Airlines and other air operators.
- Aerodromes.
- Airport Services Providers
- Navigation Services
- TCAA as the regulatory agency.

Air services

Air transport has developed a network that covers the whole country. However, within it are certain major centres of activities defined by the type of services obtainable. These may be stated to be as follows:-

a) Schedule International Air Services

These are operated mainly by major airlines under Bilateral Air Service Agreements between Tanzania and other countries. They are centred at the moment mostly at Dar es Salaam, Kilimanjaro and Zanzibar Airports.

b) International Charter Passenger Services.

These are regular charter operations using wide bodied aircraft, e.g. Airbus 330,

Boeing 767, that fly mainly to Kilimanjaro Zanzibar Airports and JNIA. At these airports, hotels and resort development suggests a steady increase of these flights over the next few years especially if the facilities are improved.

c) International Cargo Flights

At the moment these flights operates mainly to Mwanza and Dar es Salaam. However, there is considerable potential for Kilimanjaro due increase in horticultural products.

d) Internal Scheduled and Unscheduled Services.

These are the services that criss- cross the country using various types and sizes of aircraft.

The hubs of these operations are at Dar es Salaam, Mwanza, Arusha and Zanzibar

e) Aerial Work

This service involves the use of aircraft for spraying of crops, mapping surveys and searching for minerals using remote sensors. Traditionally this service was centred at Arusha and Dodoma Airports. However, at the moment the services are being provided mostly by companies operating from Nairobi Wilson Airport.

f) Aircraft Maintenance Facilities

These are mostly associated or owned by aircraft operators namely ATCL, Tanzanair.

CTL, Precision and Government Flying Agency etc

The air services infrastructure

The Ministry for Infrastructure Development is the government department responsible for the aviation sector, along with other transport sectors.

TCAA is a government agency set up as a statutory corporation under the TCAA Act 2003. It undertakes regulation of the aviation markets on behalf of the government. It also provides air navigation services and runs a training facility for its ANS specialists.

TAA and DCAZ are government agencies which operate airports and aerodromes throughout Tanzania. A range of private firms in addition to airlines provides services at airports.

A Consumer Consultative Council, funded by the Government, has been established as provided for under the 2003 Act.

Core public policy issues

With a broadly commercial airline market the government need not concern themselves with this sector beyond ensuring adequate regulation and infrastructure services where the latter are government owned. Before turning to the core issue for this study i.e regulation, we briefly discuss the fundamental issue of the inter-action between Air Transport Infrastructure Services Providers (ATISPs) and airlines.

The inter-dependency between airlines and ATISP needs to be kept to the fore. Without sound ATISP the full benefits from modern airline operations cannot be generated but without airlines ATISP is worthless and a waste of scarce resources. It follows that whether ATISP is organized along public sector/departmental lines as is the case in Tanzania or along commercial lines strong customer focus by ATISPs is critical. Customers in aviation markets, airlines, travelers and cargo shippers, can be “expert” users in terms of specifying their respective requirements and being willing to work effectively with customer-focused regulators and service providers.

On the other hand airlines, compared to ATISP can relocate their assets, people and equipment, much more cheaply and quickly as the latter’s assets are often substantially fixed and “sunk”³, concrete etc. ATISP assets have often been put in place too early or built at an excessively high cost: both are real costs. For example at Heathrow BAA spent millions of pounds to build specific terminal gates for the A-380 in time for the original date several airlines proposed for introducing the aircraft at Heathrow. This early investment has been wasted with the costs being borne by all Heathrow airlines as there was no contract between BAA and the airlines wanting the A-380 gates. Empty facilities were also observed at airports in Tanzania⁴. This means that ATISP managers need to carefully analysis airline requests in terms of economic or business

³ Sunk cost means non-recoverable if the firm leaves the market.

⁴ For example the hanger at Kilimanjaro airport.

fundamentals and seek risk sharing agreements with customers wanting purpose-specific ATISP investments⁵.

Experience has shown that just as customers are willing to pay airlines for value-for-money services, airlines and other parties are willing to pay for ATISP and regulatory services, where they see value-for-money and cost-effectiveness. e.g Swissport's cargo facility at Kilimanjaro. Aviation, perhaps in contrast to roads and rail, is capable of being financially self sustaining including in respect of ATISP development.

The flow of funds from customers, where sufficiently predictable, can be used to raise finance from capital markets which would allow profitable investments to be brought forward. As international experience shows this allows private sector participation in a wide variety of forms from simple debt finance through to the long term (30 year plus) for example, Delhi and Mumbai airports concessions/public-private partnership and ultimately leading to full scale privatization of ATISP. Sound governance structures are obviously critical to ensure that such resources are well managed and applied, long term.

The challenge for governments is to ensure that the airline market competitiveness is maintained and enhanced by eliminating government imposed entry barriers and where ATISPs remains with the government it performs efficiently and effectively and regulators undertake their necessary duties professionally, transparently, proportionately and cost-effectively.

Many governments have found aviation to be an attractive target for raising tax revenue. The line between taxes and cost-recovery charges can be somewhat arbitrary but a useful dividing line might be that charges become taxes where they seek to recover revenue in excess of the full costs of services⁶. Charges which are just recovering costs can be too high from a national perspective because the costs themselves are too high because of in-efficiency including premature or excessively costly investment. Special taxes, in addition to general taxes such as VAT, are often justified to offset tax advantages enjoyed by international aviation and environmental externalities generated by aviation e.g. pollution.

When governments have or propose taxes in excess of costs and normal tax levels in aviation markets they should be aware that air services are relatively responsive to price changes. This is because many of the markets using air services are internationally competitive, particularly tourism. Higher costs and taxes resulting in lower airline yields in one bilateral route will result in demand and services being channeled into other markets. Because of this demand responsiveness special taxes on aviation may be a relatively expensive form of government revenue compared to alternatives such as general income or consumption taxes. Total charges/taxes on aviation are relatively high (particularly when charges for visas are allowed for) in Tanzania already suggesting further increases should be avoided and more importantly reductions, via efficiency gains and utilization of other revenue sources if available, pursued because of the benefits to the sector and the economy overall.

SECTION 3: THE REGULATORY ENVIRONMENT

Tanzania Civil Aviation Authority.

TCAA as is provided for under its legislation is involved in many aspects of air transport. However, only the ones more critical to air operators are discussed below.

Safety Regulation

TCAA has a long record of regulating aviation safety in the following areas

- a) Licensing of air crew, maintenance engineers and technicians; and air traffic controllers.
- b) Certification of aircraft.
- c) Certification of aircraft maintenance facilities.
- d) Certification of aircraft operators
- e) Licensing of aerodromes.

⁵ Associated British Ports a privately owned company has the policy of not investing in specific-purpose assets unless at least 75% of the cost of the project is covered by contracts with the customer(s).

⁶ Full cost recovery includes a return **of** and an economic return **on** the assets invested in the provision of the services or its equivalent.

In the survey discussions that the consultants did with the various operators, there was a consensus that:

- a) TCAA is performing well,
- b) It maintains a high standard in its dealing with those it regulates and seeks high standards from them.
- c) It is fairly responsive to the needs of its 'clients'.
- d) It is transparent in its rules and methods.

In fact one of the operators stated that it welcomes the TCAA regulatory regime as it ensures that his personnel keep to the rules and quality control required to run a safe and efficient airline. In East Africa it is known that TCAA is often pro-active in the implementation of new ICAO safety requirements. However, in the process of doing this, there has been occasions when the enforcement of the new rules has been:

- a) premature for the stage of development of air transport in Tanzania,
- b) inapplicable or superfluous to the type of operation in certain areas e.g internal flights to the game parks,
- c) introduced with no visible benefit in safety or efficiency of the aircraft operator e.g recent changes in the certification rules of engine maintenance engineers.

This dilutes the rapport that exists between the regulator and the regulated and builds unnecessary resentment.

Aviation Security

TCAA is the custodian of the Tanzanian Aviation Security Programme. By necessity the programme involves many government and private institutions of various modes and moods. The physical operation of the security programme is undertaken by the airport operators. The latter may allow airline personnel or their agents to participate in the physical checking of passengers and luggage with the airport management retaining the policing and incident handling authority.

TCAA role in Aviation Security may therefore be stated to be:

- a) Co-ordination of the formulation of the Aviation Security Policy and Programme.
- b) Alignment of the national programme with government and ICAO requirements.
- c) Approval of specific practices required by certain airlines or states to be applied at airports.
- d) Regulation/oversight of the programme in force at the airport and in aircraft operations.
- e) Participation in the security training of airport and airline personnel.

In the course of this study, the consultants discussed the subject of security with the air operators and with the airport management. They also watched the programme in action when visiting or transiting the airports. The following observations can be made:

- a) The concept of installing a complex security programme at the international airports is correct and necessary.
- b) However, some of the methods being used at the moment may need to be rationalized e.g. double X ray checking of passengers at Kilimanjaro and Zanzibar Airports while the X ray machines are a short distance apart and the passengers are under surveillance of airport personnel.
- c) At domestic airports, the use complex security system may need to be reviewed to match the perceived or known threat and the nature of operations at that airport e.g. Mafia, Mtemera and Arusha Airports vis a vis Terminal 1 at JNIA.
- d) The attitude and the mind set of security personnel which is a source of resentment by the users of the airport e.g JNIA

Economic regulation

We have reviewed the existing legislation with a particular focus on the Civil Aviation Act⁷ (the Act). Within the legislation we have paid particular attention to the economic aspects. By economic regulation we mean rules that are imposed by government and/or its statutory agencies to influence various markets for reasons other than safety or security. These rules typically constrain entry of an airline to a market e.g. air service licenses and bilateral air service agreements (BASA); the services that can be provided in a market in terms of schedules, frequencies and capacities e.g. BASAs⁸, conduct within markets e.g. the Fair Competition Act in respect of anti-competitive behaviour/predation and any price control that might be imposed under the Civil Aviation Act.

Rules by their nature can either have no effect (the rules are non-binding) or an effect of reducing market activity. The only way rules can increase activity in some areas e.g. encouraging air services to target areas is by restricting services in more profitable markets to generate excessive profits, some of which are used to cover the losses on the target routes. This is not to argue that the rules are wrong or unjustified. This is because their imposition is based on arguments of wider benefits to customers, staff and the nation. For example, extensive aviation safety regulation is justified in a relatively expert and specialized area of considerable public concern. However international experience has shown that economic regulation has increasingly struggled to generate net benefits in airline markets. Alternatively, economically de-regulated airline markets, domestically and internationally, have generated remarkable benefits. Under-served areas and under-used airports have been beneficiaries. Indeed in the European Union one of the main public benefits of the Union is cited to be the benefits of airline de-regulation made possible by the single EU market. Now, for example, the “UK” airline Easy Jet has aircraft that are dedicated to services entirely within Italy.

We have found it useful to examine the following areas of Tanzanian government air service economic regulation :-

- international air services
- domestic air services
- air transport infrastructure services
- other airport services such as fuel supply and ground handling
- consequential TCAA institutional issues

National Transport Policy

There is a National Transport (NT) policy dated 2003⁹ which, inter alia, briefly discusses civil aviation. We understand that there is no current comprehensive statement of the government’s civil aviation policy nor is there a statement of policies by the TCAA outlining how it intends to undertake its statutory duties and functions under the law. We have formed views on existing policy and intentions from helpful discussions with TCAA, TAA, the Ministry of Infrastructure Development and TAOA members among others.

International air services

The NT policy recognizes the need for open skies policy¹⁰. The benchmark economists tend to use in this area to evaluate regulatory regimes are “Open Skies” bilateral air service agreements¹¹. These are characterized by each government party to a particular BASA being able to designate any number of its airlines to provide services, each designated airline can provide whatever services and capacity it considers

⁷ The version used here is the revised edition dated 2006 of the 2003 Act.

⁸ For example TCAA information suggests that the BASA with the UK limits each designated airline to a maximum of four flights per week.

⁹ United Republic of Tanzania Ministry of Communications and Transport 2003

¹⁰ P.52

¹¹ One model is the US agreement that Tanzania has signed. www.dot.gov. A multilateral version is the Multilateral Agreement on the Liberalisation of International Air Transportation, www.maliat.govt.nz

commercially viable and price accordingly and the market(s) being regulated by standard competition law. Of course what services are actually provided depends on each airline assessment of expected profitability in a potentially competitive environment.

Regimes under BASAs remain inherently restrictive though. The limitations are that foreign airlines are usually not permitted to pick up and drop off passengers in the other country (cabotage), third country airline participation is limited, foreign ownership of airlines is limited and the rights of designated airlines to drop-off and/or pick-up passengers en-route and in travel beyond Tanzania (so-called “fifth freedom” rights) to are limited.

Cabotage is rarely granted under BASAs. New Zealand does allow it with several partner countries. As is indicated above cabotage does take place in the EU but within a legal framework which has superseded BASAs between EU nations.

Many governments give fifth freedom rights only on a reciprocal basis and even there concerns over adverse effects of such rights on local airlines can prevent their granting. Careful national cost-benefit analysis to assist decision making desirable as in many cases while there are costs to some local airlines there are greater off-setting benefits to travelers and the economy overall from fifth freedom rights being granted liberally. Such rights may allow airlines to “thicken” up otherwise thin routes, lowering unit-costs and improving service continuity, availability and reliability.

The government uses the “principal place of business” as the ownership test in BASAs. This is less restrictive than the normal national ownership and control rules traditionally used in BASAs. This makes sense as it allows greater flexibility to airlines in a rapidly developing market place with strong regional connections.

Against this benchmark only the Tanzanian BASA with the US seems to clearly meet this criterion. It may be that the other BASAs are non-restrictive in reality in that permitted capacity is in excess of what is economically and commercially justified, at this point. However adjustment of provisions in BASAs that are or have been restrictive of the provision of further services requires inter-governmental agreement: this can be slow, uncertain and costly for airlines. One TAOA member told us that it had taken a year to be designated as a Tanzanian airline under one BASA which provides for un-constrained multiple designation of local airlines by each nation. The agreement of the partner nation is yet to be received. It is noteworthy that “low cost” carriers (such as Ireland’s Ryanair or US’s Southwest) almost never operate under BASAs: they say they find them too inflexible, slow and bureaucratic for their business model¹².

The government is a signatory to the path-breaking Yamoussoukro pan-African aviation liberalization Declaration which has “open skies” characteristics. Unfortunately we understand that there has been little implementation to date. East African regional open skies initiatives in this area given the strong inter-linkages make considerable sense.

We think there would be value in the government clearly stating that it is moving towards a fully liberal international air services policy. Implementation of this policy would result in the best possible contribution to Tanzania air services and would result of time in a larger domestic air services market. Progress will depend on bilateral partners’ willingness to liberalise, however. Depending on the regulatory reform model chosen and the pre-reform situation, international studies show that open skies policies can boost outputs by 10%-20% with commensurate reductions in prices¹³.

The Chilean government policy would be one model for the government to consider. (Attachment 4) Essentially, it is an open skies policy, provided partner countries offer reciprocity to Chilean airlines. Growth in the Chilean air markets has been impressive and the main Chilean airlines have performed well albeit with reduced share of a much bigger market. Another option and one that may assist the development of an East African single air market would be for the government to consider joining the MALIAT currently signed by 8 nations in the Asia-Pacific area including the US. If other like-minded governments in the region did likewise this would represent substantial progress towards a single air market. Of course this would not permit cabotage although a protocol of MALIAT does provide for that with a sub-set of MALIAT members currently participating. More concretely, the government could approach the European Commission

¹² It is ironic that low cost carriers predominantly operate and prosper in high income countries while the need is obviously greater if any thing in low income countries. It could be argued that a government should design and implement its aviation policies so that entry of low cost carriers is possible.

¹³ See document referred to in footnote 2 above.

expressing interest in signing a Tanzania-EU air services agreement of the type Morocco has recently signed with the EU.¹⁴ This is a multilateral open skies agreement.

Domestic air services

The Act specifies (section 26(1)(a)(1)) that one of the functions of the TCAA is to issue air service licenses (ASL). Section 25 specifies the duty of the TCAA in carrying out its functions broadly as being to enhance the welfare of Tanzania via promoting effective competition and economic efficiency along with protecting the interests of consumers and financial viability of efficient suppliers. There are detailed regulations for licensing¹⁵. These require that the TCAA approves an airline's timetable etc. The regulations also permit the TCAA after consultation with the Minister to include a so called "universal service obligation" in a licence. This can be an exclusive licence for a particular route.

These licenses are in addition to Air Operator Certificates, Airworthiness certificates and related licenses that traditionally under-pin the aviation safety regime. Thus the air service licenses can be best seen as the vehicle for economic regulation.

The other major regime pertaining to economic regulation that needs to be taken into account from now on is the Fair Competition law (2003) together with the establishment of the Fair Competition Commission which is charged with enforcing the law. We understand that this law also applies to civil aviation markets. This law appears to be broadly consistent with international practice. This set of rules and importantly the case law that has developed under the rules are seen as being the best framework for regulating market behaviour across economies and across all markets. Utilities such as privately owned electricity transmission grids are usually subject to ex ante price control in addition to competition law in recognition of the market dominance such firms have by virtue of their single supplier status. Competition law is the principal form of economic regulation of aviation markets in developed countries following the removal of economic licensing. It does not limit entry to markets as ex ante licensing might but does place clear rules around conduct within markets e.g. out-lawing anti-competitive collusive behaviour and price fixing.

There is a risk that with the new competition law applying in addition to rules under the TCAA Act firms will be subject to separate rules and the intervention of separate institutions in respect of the same business conduct. Unless this is the government's intention, firms will be exposed to the so-called double jeopardy risk with the consequential cost and distortion of commercial behaviour. In the UK to avoid this risk sector regulators such as the TCAA (in respect of ANS) do not have sector-specific competition rules in their legislation or regulations but rather are able to apply general competition law to the firms they regulate. This eliminates the risk of separate rules.

To avoid the risk of the intervention of more than one regulator in respect of a particular complaint or problem sector regulators such as the TCAA have generally reached an agreement with the competition authorities as to how competition law will be applied and which institution will take the lead when problems arise in this sector e.g. complaints. We suggest that the TCAA take the initiative with the competition authority to agree on how competition rules should be applied in the aviation markets.

Recommendation: We suggest that the TCAA take the initiative with the Fair Competition Commission to agree on how competition rules imposed by their respective statutes should be applied in the aviation markets.

The question which arises is whether the continuation of air service licensing generates net benefits to Tanzania, now and in the future. There are clearly costs, TCAA costs, air operators compliance costs and possibly the cost of reduced air service provision that arises from the licensing because of those costs (the last of this is called the deadweight cost). Airlines informed us that ASLs typically cost one million shillings. One small airline said that one of their eight non-flying staff is dedicated to the administration of licensing requirements overall including ASLs and AOC. Licensing can potentially also be an entry barrier including delays and competitors can learn to use the process anti-competitively.

In addition a study¹⁶ for the Better Regulation Unit identifies that there are some 63 statutes imposing licensing requirements on businesses in Tanzania including the Civil Aviation Act! The total cost to the

¹⁴ See attachment 1

¹⁵ The Tanzania Civil Aviation (Economic) Regulations 2006

¹⁶ Government of Tanzania Better Regulation Unit Bannock Consulting May 2006

economy of these cumulative layers of regulation means that the extra cost of ASL is even higher and that to justify continuation even higher resulting benefits need to be established.

The TCAA operating in terms of the existing duties and rules may be able to lower the costs of the existing regime. For example issuing five year or even continuing licenses linked to corporate existence and AOCs. Airlines' concern about ASLs being issued but never used could be addressed by the introduction of "use it or lose it" provisions. The TCAA obviously would need to be satisfied that this would be consistent with the law.

Recommendations: TCAA should issue long term ASL and AOC for example five years.

Certainly the TCAA should avoid trying to meaningfully regulate air fares to extent permitted by the Act (and seek the repeal of this sub-provision in the Act).. Air fare regulation even in a regulated market let alone the de-regulated competitive domestic air services market sought in Tanzania is costly and totally ineffective. Successful airlines use demand-sensitive yield management systems to maximize earnings and aircraft utilization. Attempts by regulators to improve on the outcomes can only reduce aircraft utilisation and raise prices. This is because cost based regulation, as usually used by regulators for example, if effective will force airlines towards average cost pricing resulting in service levels below that which would occur if price discrimination (yield management) was permitted, albeit within the limits set by general competition law.

If the government is satisfied that the ASL regime no longer generating net benefits the more satisfactory solution would be to repeal the provisions that establish the licensing regime including the charging regime. Repeal is likely to be a superior vehicle for reform rather than expecting TCAA to improve the regime to lower costs itself. Based on comments made by Authority members at recent licensing hearings TCAA appears to be relatively cautious about the benefits of competition and relatively optimistic about the ability of regulation via ASLs to improve outcomes. Fully liberal domestic air services markets, again compared to the regulated alternative, have demonstrated substantial gains to customers. In the US, for example, studies by Brookings Institution scholars suggest that de-regulation has resulted in air fares being 24% lower than what they would have been¹⁷. Our assessment is that the Tanzania air services market is not subject to high economic regulatory barriers of the type that characterized the US markets, pre-reform, so gains from further liberalization suggested here could be markedly less.

Recommendation: TCAA undertake a cost-benefit analysis of the ASL regime and, following consultations with stakeholders advise the government on whether the regime should be retained or abolished.

SECTION 4: AIR TRANSPORT INFRASTRUCTURE

ATISP emerged as a major issue of concern as the study progressed. We note that this concern, along with excessive regulation, is also identified in a recent World Bank study on international freight logistics¹⁸. ATISPs operate runways, taxi ways, apron and to a lesser degree terminals (competing terminals etc are possible if space permits). This infrastructure is characterized by relatively high fixed and sunk costs with competitive duplication being costly and probably inefficient. Some degree of ATISP market power can arise although, observing that many airports in Tanzania as with elsewhere lose money, this does depend on the level of demand!

The problem in Tanzania as summarized in TCAA's recent draft Masterplan document¹⁹ is that the quality of service provision at the main airports, particularly Dar es Salaam, Arusha and Zanzibar, is seen to be below the level desired by air operators and traveling public. Severe terminal congestion at peak periods is a particular concern and terminal service quality is considered by airlines to be below acceptable standards. Solutions to these problems are generally seen to be in major investments in new facilities financed by donors. These may not be quick and issues of longer term sustainability will remain without fundamental governance reforms.

The charges to airlines and travelers are not low with Tanzania Airport Authority (TAA) estimating that they amount to some \$63 in total per departing passenger on average. This is one of the highest in the region. The charges are uniform across the country. They are not set to cover only ATISP costs and certainly do not vary

¹⁷ See document referred to footnote 2 above for references.

¹⁸ P.22 "The Citizen" 9 November 2007.

¹⁹ October 2007

with airport-specific costs and demands. The relatively low passenger and cargo volumes are probably a factor contributing to the high charges. However, TAA does generate relatively substantial cash flows from its operations and the governments obviously receive substantial revenues from the passenger charges. There are uniform landing and air navigation service charges in addition as well as any net revenue from airport concessions.

The performance problems at TAA and DCAZ appears to reflect a mis-match between the economically important customer-driven priorities on the one hand versus airports owners' effective business and development plans as implemented, airport-by-airport.

There are number of small aerodromes that are operated with very little business. This clearly does raise issues about the effect of these un-profitable airports TAA operates. . We were unable to obtain a solid estimate of the net cost to TAA of the unprofitable airports. We think that TAA should re-organise its financial information systems so that airport-by-airport profit/cost centre information is routinely prepared and published along with other financial reports.

Recommendation: TAA prepare and publish performance and financial information airport-by-airport on a profit/cost centre basis.

The costs of the low use airports probably can not explain the continuing problem of the poor quality of facilities at the bigger airports. TAA accounts show that it generates substantial cash resources, resources that should be available to fund at least smaller projects at the major airports that might have high short term benefits to customers. Airlines and other firms such as ground handlers may be willing to directly fund some projects offering high pay-offs to their customers and businesses also. However, individual airport directors appear to have little discretion and budgets to deal with specific problems without reference to TAA's head office or the Zanzibar government.

TAA needs to give assurance to its customers that its airport-by-airport business planning process and resulting annual budgets identifies the best projects, prioritizes them by expected net benefits and allocates the resources accordingly. This should include what might be regarded as maintenance and de-bottlenecking projects as well as more traditional development projects. This analysis might suggest intensive focus on available resources on the maintenance backlog and de-bottlenecking at the bigger airports rather than development in the medium term. TAA comment that the government is allowing TAA to spend 61% of TAA revenue collections in 2007/08 suggesting that TAA is seen as an integral part of government budgeting, rather than being a stand-alone self-financing airport business²⁰.

The DCAZ has a revenue budget (excluding the passenger charges which accrue directly to the government) for 2007-08 of over one billion shillings. Its expenditure budget is less than two-thirds of that but airport management fear that, based on experience, the airport will be actually allowed to spend only a portion of that given overall government within-year cash management. The airport is also experiencing considerable peak period terminal congestion and is delivering un-acceptably low service quality. While the airport with the government is developing an ambitious expansion plan costing some \$70m, airlines and others consider that a number of low cost options are available to address immediate problems e.g. spending more money on cleaner toilets and providing temporary shelters for the large number of people queuing in the open to check-in or for border control. Private parties have apparently indicated a willingness to fund some short-term improvement projects.

Fundamentally the appearance is that departing passengers are paying \$6 or \$38 in passenger-specific charges, in addition to various charges paid by airlines, and most are receiving a poor quality service. The outlook would seem to be deterioration rather than improvement in the situation in the medium term particularly if growth continues. This is also not good in terms of Tanzania's reputation in the international tourism market place.

This may raise broader issues about the clarity of TAA's and DCAZ's objectives, autonomy and accountabilities. These are basic issues for the governments as owners of TAA and DCAZ. The effectiveness of the current airport policy/governance settings could be usefully evaluated against an alternative business-like enterprise model. Under this alternative approach both TAA and DCAZ would be given by their respective governments clear customer-focused objectives, subject to earning an economic return on the assets invested.

²⁰ Ministry of Infrastructure Development TAA Business Plan for the year 2007/2008.

Under this approach, the Union Government could contract with TAA for the net costs of the continuation of the commercially non-viable airports. This would then allow TAA to be held accountable for its overarching objective. Government would have access to increased earnings from TAA via dividends to fund these non-commercial services if it considered that this would be the best use of funds compared with re-investment in TAA.

Such a business-like framework is likely to provide a sounder basis for the introduction of private sector participation into ATISP as TAA and DCAZ would have been given a clear commercial focus with the government taking explicit responsibility for broader public policy issues.

Of course for this model to work better than the status quo, the governments need to be comfortable with this very different type of “hands off” but still business-like public sector management. But while the TAA and DCAZ remain government, there would be need to monitor them, . The governments would also need to be confident that the TAA and DCAZ management teams can effectively take advantage of the new framework with its much greater responsibilities and accountabilities.

Recommendations:

(i) The Ministry of Infrastructure Development develop proposals for the government’s consideration to move TAA onto a business-like footing.

(ii) The Zanzibar Ministry of Communications and Transport develop proposals for the government’s consideration to move DCAZ onto a business-like footing.

Introduction of Private Sector Participation into ATISP – The Kilimanjaro Airport Case

Privatization of selected airports is another option to address performance problems as with BAA in the UK in 1987 or Sydney airport in Australia more recently. TAA as well as the government would have gained considerable experience from the concession for 25 years of its Kilimanjaro airport with TAA taking a minority position in the operating company. Airlines have generally rated this as the best performing airport in Tanzania. We understand that the airport receives standard landing fees but also the passenger departure taxes. It is responsible for maintaining and operating the airport to ICAO standards. As the airport appears to have more than adequate capacity, airport management has focused on best utilizing the existing assets and attracting new traffic. The apparent general good quality of the airport shows one benefit of an airport receiving adequate cash flows from customers and having a clear commercial objective. We understand that the management team is comprised mainly of ex-TCAA and TAA staff. The airport says it has freedom to offer lower landing charges if it is in its commercial interest to do so. With the blessing of the airport, the ground handler, Swissport, has built a cargo facility to handle consignments such as those generated by the emerging fresh flower export market. The airport is keen to see competition in ground handling market, building on the success of the introduction of competition in the fuel supply market at the airport. TCAA agreement is currently needed to allow the introduction of further handlers.

The satisfactory performance by the airport may have come at an unnecessarily high cost or more accurately low benefits to the government hence generating political outcry. The charges that the airport can levy may (or may not) be higher than those necessary to efficiently operate and finance the airport. Concessions are a proven option for the introduction of private sector participation in airports but other (simpler) options are available ranging from short term management contracts through to full privatization. However, the pre-conditions for such arrangements generating maximum benefits to Tanzania, including to customers, will include a clear policy and regulatory regime along with a selection process that maximizes the prospect of the best partner being chosen. The former includes careful consideration of the charging regime against the expected costs of operating and developing the airport.. This allows the careful development of transaction documents including a concession agreement if that is policy option chosen. To select the best airport owner and to generate the maximum proceeds to the government (or minimize the costs in case of loss-making airports) a transparent competitive process should be used.

Lessons from India

As the Indian government experience shown with respect to the Delhi and Mumbai airports, a competitive process for the rights to win a relatively clear concession can result in the government and/or airport users receiving a substantial share of the benefits that are expected to arise from the introduction of private

participation. The bidding partly took place on how low the airport charges would be. The Indian policy and process can be improved on, particularly by early clarification of policy and regulatory issues. There is considerable international interest in ATI investments including by other ATI operators and major investment funds.

Development of short term remedial action plans for each major State airport

Given the major TAA and DCAZ airports performance problems that exist currently, problems that will worsen if demand keeps growing rapidly and the planned major investment programmes will not offer relief for some years even if they are approved right now. Therefore, a short term action plan is needed for the major state owned airports. We suggest that the respective governments request TAA and DCAZ to work with stakeholders to develop a short term time action plan to address key problems for the next five years utilising all available resources. All actions should be capable of being implemented by the end of 2008. Development and implementation of a satisfactory action plan for each major airport should be a key item in each director's employment and/or performance contract ranking along side with the continued operation of the airports.

The consultants in the course of the study suggest that possible actions could include the following measures at Arusha Airport, for example,

- accelerating its programme of increasing the apron space at the airport,
- creating more space for passenger handling at Arusha by modifying the present terminal, complete the construction of the proposed arrival lounge or modifying another airport building eg a hangar,
- allocating some space ie a building or land to Arusha based operators to put up temporary offices until those that in the master plan materializes,
- accelerate the construction of the airport fence so as to improve security and to avoid runway incursions provided.

There are likely to be funding implications for TAA and the government for the effective implementation of the action plans, but the total airport expenditure would still be less than the revenue generated by the airports.

Recommendations: TAOA urges that the governments to direct TAA and DCAZ in association with the stakeholders to develop short term time action plans to address key problems for the next five years utilising all available resources.

ATISP price control?

The current TCAA rules appear to require economic regulation of ATISP services²¹ and TCAA has recently outlined an airport charge control framework²². We are not sure that the use of economic regulation by the TCAA would best address the identified problems with TAA and/or DCAZ. As is argued above economic regulation can only stop or constrain actions. The problems identified are insufficient service provision and quality linked to sub-optimal governance, incentive and accountability arrangements for TAA. The usual reasons for price controlling airports, even commercially run ones, are weak. A customer-focused government owned TAA would have little reason to exploit any dominance leading to excessive charges and profits. This is particularly the case given that overall charges are already high and volumes low, albeit growing rapidly. It is interesting that careful studies by public agencies in Australia and New Zealand have concluded that, because of the well known adverse effects of price control, airport price control should not be pursued or continued²³. Also, the UK CAA has proposed the removal of price control (which it implements) from government owned Manchester airport and privately-owned Stansted Airport²⁴. Each airport handles more than 20 million passengers per annum.

²¹ Part III of the 2006 Regulations.

²² TCAA "Rules for Rates and Charges" October 2007

²³ New Zealand: www.competition.org.nz,

Australia: <http://www.pc.gov.au/inquiry/airport-services/docs/finalreport>

²⁴ www.caaerg.org.uk

Instead of early and probably unnecessary introduction of price control, international experience would support rules that reinforce the customer focus be given to TAA and DCAZ as suggested above as part of governance reforms (and its logical extension to TCAA's air navigation service (ANS)). These would be rules that require enhanced information disclosure by TAA and DCAZ to customers and other airport users together with effective consultation with them, airport-by-airport. We support the idea for TAA and DCAZ to publish its draft business plan covering, say, a ten year period covering demand for services, capacity assessment, development options, risks and financial implications for each major airport including for charges to customers.

The term "consultation" has an established case law meaning in common law countries. Generally it is taken to mean that the firm consulting must enter into the process with an open mind, and is willing to listen to representations to the point of being willing to change his/her mind. If a "consultee" considers that an agency which has a statutory duty of consulting has not properly consulted judicial review can be sought with courts usually being willing to invalidate the consultation and requiring a new meaningful consultation with the delay and costs this causes: this constitutes a penalty for poor consultation.

Enhanced information and consultation requirements have been applied to air navigation services in Europe via Eurocontrol²⁵ We would support the extension of the proposals in respect of TAA and to TCAA's Air Navigation Services.

Recommendation: TAA, DCAZ and TCAA be required to publish their draft business plan covering a ten year period stating the demand for services, capacity assessment, development options, risks and financial implications for each major airport and hold meaningful consultations with its customers before finalizing the plans and annual budgets/charges.

Airport-specific cost information together with effective business planning would make airport-specific charging possible to the extent demand permitted. Varying charges on an airport-specific basis would make economic sense as such charges would be able to take better account of both demand and costs.

Air Navigation Services.

Having ANS as an integral part of the TCAA has been a common practice internationally. However its continuation does increasingly raise concerns as to the integrity and transparency of the safety regulatory system applied to ANS particularly given the relative size of ANS compared to regulatory functions. ANS may have more than three times the number of staff as the rest of the TCAA put together. ANS tends to be unavoidably influential within any CAA and may also be used to cross-subsidise the regulatory services. Separation of ANS from TCAA would be a desirable move to reduce apparent conflicts of interest and allow TCAA to focus on its core safety regulatory functions. ANS development with the aviation market may also benefit from being established on a business-like basis.

In the discussion with the air operators and aerodrome owners, the consultants were impressed by the high esteem that the operators had for ANS. In their visit to Zanzibar and Arusha the consultants took the opportunity to visit control towers and to meet with the ANS personnel. They were impressed by their professionalism. However, the study revealed that the following issues are facing ANS at the moment;

- a) The imperative to disengage ANS from the rest of TCAA. However, the resulting institutional form has not been determined. Ideas are mooted to merge ANS with TAA on the mainland and with DCAZ in the islands.
- b) The East African Community proposal to centralize the control of upper airspace of the whole EAC leaving the Partner States with the control of the lower and the terminal airspace. If this is implemented, it shall make the establishment of independent ANS in Tanzania non viable. At the moment the largest part of ANS revenue comes from over flights. Without it, the formation of the truncated Tanzanian ANS will force many imponderables to be considered eg the recovery of the true cost of providing air navigation services from small and medium sized aircraft . Therefore, the decision

²⁵ www.eurocontrol.int/prc/

required in a) above cannot be made until the question of EAC harmonization is resolved.

It is important that TAOA keeps the foregoing in respect of ANS in mind when consulting with TCAA. In addition TAOA must insist that while decision on the form of new ANS is awaited, the improvement in the services that have been agreed with, or demanded from, TCAA must be implemented.

Recommendation: Due to possible conflict of interest, TCAA develop proposals for the government's consideration which would separate ANS from TCAA with the ANS being established as a stand alone business-like entity.

Other airport services such as ground handling

There are concerns about the costs of on-airport services such fuel and ground handling. We understand that TCAA has extended the scope of economic regulation to the entry of firms into these markets and presumably their subsequent conduct. In Zanzibar the sole ground handler has an exclusive license issued by the government. These markets are potentially competitive with the scale of the respective industries dependent on the likely level of demand vis-à-vis supply costs. For example at smaller airports only one firm may be viable. At Dar es Salaam competing suppliers of some services appears to be possible. Attempts by other firms to enter the various markets may result in failure or the exit of the incumbent. This is a normal market process and normal competition law is all that is needed to regulate the fundamental economics of the process. TCAA has recently conducted a public inquiry on airport ground handling services and refueling services. In principle the concept of having several supplies on these services is acceptable. The modality of ensuring that efficient and reliable services are provided is being worked out by TCAA and TAA

As firms providing services at airports will need access to and use of TAA property, TAA will obviously need to approve the entry of such firms and regulate their conduct in the overall interest of the airport, safety, security and efficiency. We see no further reason for economic regulation of firms that TAA has authorized to provide services at airports. Market behaviour in these markets is and would be regulated by the Fair Competition Act.

Recommendation: TCAA cease economic regulation, including entry regulation, of firms providing services at airports in Tanzania.

SECTION 5: FINANCES

TCAA Financial analysis

Background

The Tanzania Civil Aviation Authority (TCAA) is a body corporate established under the Civil Aviation Act No. 10 of 2003 and became operational with effect from 1 November 2003 taking over the functions of the former TCAA which was a semi-autonomous government Executive Agency established in 1999 by the Ministry of then Communication and Transport. Some of the TCAA objectives that are more relevant to this section of the report include:

- (i) To have reasonable fares, which will be affordable by a big section of the travelling public but which will also enable the service providers to recover their costs within a reasonable time frame.
- (ii) To have an efficient and sustainable air transport industry with a growth of not less than 8% annually.
- (iii) To maintain a surplus of revenue over expenditure and liquidity ratio of 2:1 per annum. Our interpretation of this objective is that TCAA will need to raise funds in excess of its normal operating costs and generate surplus equal to its operating expenses every year. One of the sources of revenue is from the charges imposed on the air operators – who pass them to the passengers. This will have impact on all the objectives above – as air travel will become expensive and unaffordable to many of the would be air travellers!

Financing

TCAA revenues come from collections charged to the users of air transport services. The various revenue sources include the following: *Air navigation charges, Landing and parking fees, Short term licensing and air licensing fees, Airworthiness Certification, Personnel licensing, Airport Certification, Course fees, Flight operations fees, Safety fees, other charges from air services and other income.*

Our review indicated that TCAA is fully self financed and there is no government funding/subventions nor are any subscription fees received. Based on the discussion with TCAA, the fees that are imposed on/through TAOA members are: *Air Navigation Charges, Landing Fees, Air Service license, Short term license and Administration fee*. We provide detailed analysis of income and expenditure of TCAA for the past three years in the tables below:

Income analysis (TZS'000)

	2003/04	2004/05	2005/06	2006/07
Air navigation service charges	3,978,263	4,113,340	7,372,298	8,962,709
Landing and parking services	1,410,506	1,638,353	3,559,286	1,718,304
Air Service licensing	458,231	629,926	599,771	825,192
Administration fees	34,473	30,455	44,309	87,311
Less: TAA and TMA share	-	-	(4,114,024)	
Total from Air Operators	5,881,473	6,412,074	7,461,640	11,593,516
Airworthiness Certification	251,493	159,941	206,606	246,503
Personnel licensing	48,752	58,323	60,211	102,995
Flight operation fees	32,132	27,848	54,922	105,784
AIP Log Book sales	9,057	14,876	10,492	12,151
Students' Fees	131,954	57,915	60,455	76,232
Safety Fees	-	-	4,451,967	6,423,485
AVSEC project charges	808,721	865,146	-	-
Airport Service Certification	-	-	76,547	121,727

Income from core activities	7,163,582	7,596,123	12,897,662	18,682,393
%-age of income from core activities	83%	85%	57%	62%
Other income – interest, sale of tender documents, foreign exchange gains, miscellaneous income	318,121	284,863	514,822	Not available
Total income	7,481,703	7,880,986	13,412,484	N/A

Analysis and observations

The *air navigation charges* accounts about 55% of all revenues from core activities collected by TCAA for the years ended 30 June 2005. With the introduction of Safety Fee (which accounts for approximately 27%) with effect from the financial year 2005/06, the ratio of Navigation fee has dropped to approximately 45%. The Safety fee is paid by all departing passengers.

The air navigation fee is net of the amounts paid to Tanzania Airports Authority (TAA) at the following ratios: TCAA – 82.5%, TAA – 17.5%.

Landing fee, which accounts for approximately 22% of the total revenue from regulation activities; collection for the three years above, is collected by TAA and shared with the TCAA at the ratio of 60% TAA, 30% TCAA and 10% for TMA.

Expenditure (TZS'000)

	2003/04	2004/05	2005/06
Staff Costs	1,803,733	1,890,390	3,499,053
Operating expenses	2,902,302	2,712,804	3,226,383
Repairs and maintenance	539,030	480,989	810,328
Other administrative expense	756,552	1,161,986	1,462,683
Board expenses	12,483	23,854	155,775
Audit fees and expenses	6,520	12,021	12,070
Total before depreciation and finance charges	6,020,620	6,282,044	9,166,292
Financial charges	515,398	431,229	808,762
Depreciation expense	926,689	1,028,798	1,421,782
Total expenditure	7,462,707	7,742,071	11,396,836

Analysis and observations

The major expenditure for the TCAA are: Staff costs, Training, Seminars and Conferences (under operating expenses), repairs and maintenance especially for the Telecom and Nav aids, utilities (mainly electricity and communications) and Office expenses. The analysis above shows an upward trend in various expenditure categories – mainly staff costs, operating expenses, administration expenses and Depreciation.

Salaries and related costs were almost doubled in 2005/06 and represent a significant portion of the total expenses - 29 to 38% of all expenses excluding depreciation and financial charges. Repair and maintenance averages at about 8% of total expenditure excluding depreciation and financial charges. Operating expenses to total expenses before depreciation and financial charges indicates a declining trend from 48% in 2003/04 to 35% in 2005/06, mainly due increase in other cost elements.

The major items under operational expenses are Telecommunication and Postage (TZS 718 million), Conferences and Committees (TZS 722 million) and Staff training expenses (TZS 448 million) for the year ended 30 June 2006.

Financial charges comprise of normal bank charges, fees and commissions as well as insurance costs.

Surplus and liquidity ratio (TZS'000)

	2003/04	2004/05	2005/06
Surplus	18,997	138,915	1,500,826
Surplus as % of total income	0.25%	1.76%	11.6%
Liquidity ratio (current assets to current liabilities)	6.4:1	3.7:1	5.5

There has been an increase in the surplus during the period under review, though not as high as stated in the authority's objectives. The liquidity ratio has been very good during the period indicating that the Authority is well financed to be able to service her obligations as they fall due.

The revenue collected is to recover the costs of the services rendered to the air transport operators plus surplus for TCAA capital financing.

The surplus is deposited in special account and used on:

- a) Consumer education and information projects.
- b) Special non-recurrent projects.
- c) Major rate regulatory inquiries.
- d) Training, Development and Research.

Cost of compliance by air operators

In addition to the above direct payments by the air operators, there are other (non cash) costs of complying with the TCAA rules and regulations and these include:

- (i) Administration cost of handling the compliance procedures (Documentation)
- (ii) Delays in sending out bills to air operators – which in turn causes cash flow management problems to the air operators
- (iii) Response time and delays by the TCAA
- (iv) Instances of unfair customer treatment at airports, causing impact on the respective operator as customers attach the treatment to the operator.
- (v) Strict controls at domestic airports (sometime double X-ray checking at the same airport and within vicinity by the airport surveillance system), causing unnecessary scrutiny (inconveniences/disturbances) to passengers and other air transport users
- (vi) Disclosure of some confidential information (provided to TCAA as part of compliance) to third parties without consent

Recommendations: TAOA need to engage TCAA to reassess the optimal number, incidence and amount of fees and charges imposed so as to ensure modest growth in the air transport as well as reasonable return on invested capital.

Recommendation: TAOA may need to discuss the non cash compliance procedures with TCAA and agree on a streamlined approach that would ensure that the rules and regulations by TCAA are adhered to and also that the air operators make a modest returns on the invested capital. An estimate of the time spent on compliance and its related monetary value may need to be established before approaching the TCAA for a formal discussion on the issue.

TAA Financial analysis

Background

The Tanzania Airports Authority (TAA) was established under the Executive Agencies Act No. 30 of 1997 and came into operation under Tanzania Airports Authority Establishment Order made under the Executive Agencies Act on 29 November 1999. The major function of TAA is the provision of safe and secure airport infrastructure to enable air operators conduct their business in an efficient and effective manner. The authority manages and operates 62 airports throughout the country – which represents about 17% of all airports and aerodromes in Tanzania, but accounts for about 63% of the total air passenger traffic, 68% of the aircraft movement and over 80% of the air cargo handled in the country.

The major sources of revenue to the TAA are: Airport landing and parking charges, Passenger service charges – collected by the airlines and travel agents and remitted to TRA who retains 20% and remit the balance of 80% to TAA, Concession fees and rental charges, Advertising at airports, government subventions and Miscellaneous income. We provide analysis of income and expenditure of TAA in the tables below:

Income analysis (TZS)

	2003/04	2004/05	2005/06
Landing & parking fees	2,748,755,055	2,845,223,381	4,171,190,340
Rent and concessions	2,068,149,192	1,961,588,762	1,555,661,253
Passenger service charges	6,149,425,698	6,409,447,353	12,282,058,386
Advertisement charges	178,725,615	251,965,141	176,841,850
Concession fee	-	-	514,295,549
Airport parking fee	-	-	18,749,993
Sub-total core revenue	11,145,055,560	11,468,224,637	18,718,797,371
Interest Income	7,472,413	23,963,220	26,493,289
Recovery from Doubtful debtors	-	43,299,333	-
Receipt for Security Improvement	-	805,191,387	-
Miscellaneous Receipts	110,122,298	69,983,736	143,976,558
Gain from Exchange Rate	341,612,813	344,265,757	182,944,838
Grants from Donors	-	2,514,951,923	13,816,970,735
Government subvention	750,000,000	750,000,000	870,000,000
Total income	12,354,263,083	16,019,879,993	33,759,182,791

Analysis and observations

Passenger service fee accounts for an average of 55% (TAA budget document 2007/08 states 64%) of all the core revenue collected during the period under review, while landing and parking fees accounts for about 25% and rent and concessions 18%. Government subvention accounts for an average of 6% of the total income for the period under review.

The passenger service fee is normally imposed through government legislation and is collected and retained by TAA for financing her operations. The fee was raised (almost doubled) during the fiscal year 2005/06. Much as this is not a cost to the air operators, the high passenger service fee has impact on the price of air travel, which may impact on the number of passengers carried and consequently on the business of the air operators.

The grant from donors was related to the construction of Songwe airport in Mbeya.

Expenditure analysis

Year	2003/04	2004/05	2005/06
Staff emoluments	2,223,416,282	3,443,460,804	4,395,637,348
Maintenance	2,414,573,067	2,155,090,514	2,711,884,468
Administration expenses	3,605,439,005	3,478,295,402	4,731,646,593
General expenses	1,093,163,498	602,939,283	883,863,909
Sub-total operating expenditure	9,336,591,852	9,679,786,003	12,723,032,318
Financial charges	49,062,298	467,519,219	563,004,814
Depreciation of assets	641,912,549	1,515,767,919	1,611,365,239
Total	10,027,566,699	11,663,073,141	14,897,402,371

Analysis and observations

The above table shows that staff costs account for an average of 24 to 35% of the total expenditure before depreciation and financial charges, while maintenance accounts for about 23% of the expenditure and average of 19% of revenue collected, excluding the concession and parking fees – which were introduced in the year 2005/06. Administration and general expenses account for the remaining 42%. Analysis of maintenance cost (which is directly related to the air operators' services) is provided below.

Analysis of maintenance cost

	2003/04	2004/05	2005/06
Road Paint & Windsock	-	567,200	8,581,000
Maintenance of Buildings	640,723,552	853,623,733	799,795,353
Maintenance of Computers	32,155,098	20,707,850	37,516,841
Maintenance of Infrastructure	54,729,716	5,029,070	10,551,200
Maintenance of Pavement	876,361,562	311,435,591	536,232,313
Maintenance of Air Conditions	29,488,371	38,344,805	16,359,124
Maintenance of Equipments	300,089,839	473,800,677	688,812,136
Maintenance of Radio	1,389,600	-	738,500
Maintenance of fire fighting equipment	8,076,00	17,070,000	4,730,000
Maintenance of Motor Vehicles	316,146,477	304,693,017	331,130,368
Maintenance of RFF Vehicles	155,412,852	129,818,572	218,043,633
Maintenance of taxi way	-	-	7,891,200
Maintenance of apron	-	-	42,165,600
Maintenance of chain link and block wall	-	-	9,337,200
Total	2,414,573	2,155,090,514	2,711,884,468

The majority of repairs and maintenance has been on buildings, pavement, equipment and motor vehicles.

Analysis of General Expenses

	2003/04	2004/05	2005/06
Advertising and Publicity	296,932,529	162,925,692	262,162,462
Exhibitions	0	0	4,800,500

Donations and Gifts	44,000,100	69,405,144	81,206,233
Chemicals	71,544,131	131,771,722	70,526,080
Seminar and Conferences	36,413,769	54,289,043	119,329,991
Road Paints and Windssocks	0	538,100	31,135,400
Subscription and Contribution	25,106,255	47,305,371	26,878,533
Training – Local	166,711,387	159,430,759	221,2209,982
Training- Overseas	161,765,089	43,228,045	66,614,728
Bed Debtors Expenses	489,912,901	214,539,918	0
Prior Year Adjustments	-199,222,663	-280,494,512	0
Total Expenditure	1,093,163,498	602,939,283	883,863909

Statement of Expenditure for HQ and Selected Airports

	2003/4	2004/5	2005/6	2006/7
Headquarters	6,057,529,150	6,664,068,375	8,360,537,039	9,237,114,110
Mw. J.K. Nyerere	3,504,658,465	3,482,452,446	3,721,372,192	4,758,432,266
Mbeya Airport	0	0	58,746,052	82,257,927
Arusha Airport	0	678,400	199,996,673	180,207,231
Dodoma Airport	0	0	204,747,231	239,050,920
Mwanza Airport	0	0	524,520,386	487,157,120
Total Expenditure	9,562,187,615	10,147,199,221	13,069,919,573	14,984,220,251

Surplus and liquidity ratio

Year	2003/04	2004/05	2005/06
Surplus (excluding grants from donors)	2,326,696,383	1,841,240,730	5,044,809,685
Liquidity ratio (current assets to current liabilities)	24.4:1	35.6:1	18.9:1

The analysis indicates that TAA generates enough revenue to cover its operating expenditure, generate surplus and is highly liquid. . TAA uses the surplus in the following areas:

- a) Improvement of infrastructure and facilities of major airports ie Kigoma, Tabora, Shinyanga, Mwanza, Arusha, Mafia, Bukoba, Dodoma, Sumbawanga, and Singida
- b) Improvement of JNIA facilities.
- c) Maintenance of TAA minor airports and strips.
- d) Provision of infrastructure, equipment, facilities and training for airport safety and security.

Recommendations

- (i) **TAOA may need to engage TAA (and the government) to consider the level and effect on the air transport business of passenger service fees so as to arrive at an optimal fee level.**
- (ii) **Critical analysis of the TAA facilities needs to be studied so as to engage TAA on those areas that require attention in terms of capital assets and repairs and maintenance. The capital assets improvement requirements can be agreed in terms of immediate, short term, medium term and long term projects.**

SECTION 6: TCAA INSTITUTIONAL ISSUES

The forgoing regulatory reform package when implemented would see the TCAA as being primarily a specialist aviation safety regulator, building on its current strength. Potential conflicts of interest between ANS and safety regulation would be reduced and placed on a similar basis as with the safety regulation of DCAZ and TAA. Placing TAA and DCAZ on a more business-like footing should assist TCAA to professionally regulate TAA in respect of safety and security. Economic regulation functions including air service licensing could, depending on the outcome of the suggested TCAA review, gradually be reduced to a focus on international air services as required under BASAs. This report makes recommendations for a greater customer focus for ATISP including via enhanced information disclosure and consultation requirements. The TCAA could monitor this process on behalf of the government and advise the government on the adequacy of the rules and the performance of the ATISP providers under the rules. If the government agreed, TCAA could broaden its role into being the government's expert advisor on ATISP policy issues and aviation policy more generally, covering emerging security and environmental issues for example, in addition to the traditional issues.

TCAA can continue to build an open relationship with the firms it regulates. While the notion of TCAA "customers" is inappropriate for a regulator, TCAA can properly involve airlines, ATI firms and other industry firms in its business planning, resourcing and charging process. TCAA should be able to explain to interested parties the proposed scale and focus of its activities, options to improve efficiency and effectiveness along with its longer term plans for ensuring adequate regulatory capacity in the future e.g. training and investment plans. Also, before TCAA introduces new rules it should also undertake a cost-benefit analysis that explicitly considers costs to the industry alongside the benefits, whether the rule is proportionate to the problem being address and whether lower cost options are available e.g. information, education and self regulation. TCAA in agreement with the government must remain the final decision maker but the same consultation requirement as proposed for ATI firms can be applied to TCAA.

TCAA financing could be via levies on TAA, DCAZ and ANS revenue bases sufficient to recover TCAA costs not recovered from specific service charges e.g. for AOCs..

Recommendation: TCAA be required to publish its draft business plan covering a five year period on its projections of regulatory services necessary given the projected market activity levels, the costs of each service together with investment requirements for the future and financial/charging implications and hold consultations with interested parties before finalizing its plan and annual budgets/charges.

Recommendation: Before TCAA introduces new rules it should also undertake a cost-benefit analysis that explicitly considers costs to the industry, whether the rule is proportionate to the problem being addressed and whether lower cost options are available.

SECTION 7: TRAINING

The Situation

Training is an important aspect of the aviation industry especially when one considers the rapid changes which it goes through and which are the trademark of the industry. In Tanzania' training in the relevant aviation fields is necessary so to meet the requirements for:

- a) the operation of individual institutions in accordance to international rules and procedures,
- b) the provision of supervisors and managers for its day to day operations,
- c) compensation for staff attrition due to old age, incapacitation, dismissals, resignations, poaching or emigration from Tanzania,
- d) to put in place future institution managers and policy makers who have greater understanding and empathy with the industry.

During the course of this study, the consultants inquired about the availability of qualified manpower and the arrangements for training. The picture that emerged is as follows:

- a) There is general shortage of trained personnel in all technical fields of aviation. This is true for Tanzania , Kenya and Uganda.

- b) In Tanzania there is an acute shortage of pilots. For the number of aircraft they own, this leads to many air operators managing with just enough pilots to remain within the law. It makes it hard to plan for expansion. It also produces difficulties in retaining qualified pilots due to frequent bids made to the pilots by firms within and without the country offering better conditions.
- c) There is a critical shortage of airworthiness engineers that threatens to limit the TCAA's ability to effectively regulate the industry. Similarly, there is a shortage of aircraft maintenance engineers that may limit the air operators' ability to put into effect TCAA rules and regulations.
- d) With the rapid expansion of the mobile telephone and other information, computer and telecommunication sectors, it is difficult for aviation, especially government agencies, to attract, train and retain telecommunication and avionic personnel due to higher salaries and fringe benefits offered by ICT.
- e) The impending expansion of the air transport sector in Tanzania as hinted by Air Tanzania's intention to acquire several new aircraft, and the recent licensing of several airlines to be based in Tanzania that intend to use medium to large jet aircraft eg Community Air, Zara APA International, etc shall exacerbate the manpower situation even more.
- f) Due to lack of regular fresh injection of younger personnel, many of aviation institutions have disproportional numbers of employees aged 50 years and above. Over the next, 5 to 10 years the retirement of this group will put a great strain on the institutions' performance.

Training Needs In Aviation

It is clear that there are shortages of qualified and experienced personnel in both the public and private sectors of the industry. In the short term, this issue could be mitigated by recruiting from outside East Africa. However this can be expensive and the long run unpredictable considering, for example, the current demand in countries with much larger air transport sector eg India. The solution definitely lies in training Tanzanians.

Many of the skills and expertise required in air transport require long and expensive training even with candidates that have good academic qualifications. This could be indicated by the following examples:

- Airworthiness Engineers - 5 to 10 years
- Aircraft Maintenance Engineers - 5 years
- Aircraft Maintenance Technicians - 3 to 5 years
- Pilots with CPL and Instrument Rating - 18 months to 2 years
- Air Traffic Controllers - 2 years
- Aerodrome Engineers - 3 to 5 years

It is normal for government institutions like TCAA, TAA and Government Flying Agency to initiate and finance the training of their potential and current employees for the long time and cost required. Except perhaps for Air Tanzania and Precision Air, it is unlikely that any of the members of TAOA would undertake such an exercise. Therefore there is a need to establish a mechanism that will enable air transport stakeholders, as a group, to train Tanzanians in the expertise and skills required in the industry without putting unduly large risks and expenses on individual firms.

Recommendations: TAOA should work with other stakeholders to create a mechanism that will define the training needs in the air transport and financing.

SECTION 8: IMPROVING TAOA'S EFFECTIVENESS

Background

The Tanzania Air Operators Association (TAOA) is a collective representation of all registered and licensed air operators and relevant non-governmental organizations in the air transport operations. TAOA was registered in 2002 as a platform for positive dialogue between licensed air operators and other stakeholders in the aviation industry and air transport sector. It is recognised by the government and has approximately 30 potential members. Since establishment, the major activities of the association have been:

- (a) To facilitate the development of a safe, viable and reliable aviation industry.
- (b) To strengthen and support its members by fostering a strong business environment in Tanzania.
- (c) To provide a platform for the generation and exchange of ideas between members and with other stake holders in the industry
- (d) To develop its role as the voice of the private sector and consequently aims to work closely and And effectively with TCAA

The main sources of fund for TAOA are:

- (a) Annual Members subscriptions
- (b) Fee for services rendered to members
- (c) Grants and subsidies from the Government and donors

Currently TAOA depends on a few members' annual subscriptions

Organisation structure and financial management system

The consultants noted the following issues regarding the TAOA financial management system:

- (i) There is a management structure that does not have full time office bearers. The bulk of the tasks are being performed by the Chairman on a part time basis. Currently he is being assisted by an acting Executive Secretary.
- (ii) Of the 12 founding members only a couple of them are active on TAOA affairs
- (iii) There are no documented Financial Regulations and Accounting Procedures for the Association. These would guide the members and office bearers on how to manage the resources at the organisation's disposal.
- (iv) There is no reliable source of funds to run the affairs of the association – the only major source being the members' annual subscriptions (currently TZS 200,000 per annum), some of which is not paid on time. Even then, if all income were received TAOA would raise a total of TZS 2,400,000 per year which seems very small to finance the activities of the secretariat.
- (v) Nevertheless, even with the above limitations, TAOA has logged in a number of successes in its advocacy work for its members. These include the repeal of taxes on aviation fuel, revision of legal provisions that, if passed, would have disastrous effects on air operators and the ability for TAOA to send representatives to all major civil aviation meetings held in the country.

Recommendations

We recommend that the Association have some office bearers on full time basis to look after its affairs. Such positions could include the Executive Secretary and Office Manager/Administrator cum Accountant. This will facilitate smooth operations and financial management which are key in achieving the Association's desired objectives and vision.

TAOA needs to institute a proper financial management and accounting system. Such system would provide the policies and procedures governing utilisation of the various resources available with the Association and provide details of the various books, records and reports to be produced on a regular basis. These policies and procedures and accounting and reporting system should be documented in Financial Regulations and Accounting Procedures Manual.

In order to implement the above recommendations, TAOA will need to reassess and streamline the various sources of funds including the amount of members' annual subscriptions to ensure that the Association is fully funded and the activities are run smoothly.

The Association need to reassess its vision, mission and strategic objectives in order to and attract more air operators into its membership. The increased membership will assist TAOA to make impact on the air transport industry in Tanzania as there will be a unified collective voice of the air transport stakeholders for better air transport operations in Tanzania. In addition, having all (or almost all) air operators in the TAOA membership will mean increased revenues from membership subscriptions.

It is clear that for TAOA to play its allotted part in air transport industry in Tanzania it must reinvent and revitalize itself. In this respect the following steps could be taken:

Short Term Measures

- a) With its present resources or with assistance from external agencies, TAOA establish a full time office headed by an Executive Secretary who has an aviation background and the ability to interact effectively with other actors in the industry.
- b) Nominate a liaison officer at each major hub ie Arusha, Mwanza and Zanzibar to form a point of communication and coordination between TAOA Head Office and members in the regions.

Medium to Long Term Measures

- a) Once the expected positive results of the Short Term Measures are visible, TAOA should review its constitution, its management structure and the allocation of responsibilities within the organization.
- b) Create a method of financing of the association that it will enable it to perform its task effectively..
- c) Carry out a recruitment drive for new members and form TAOA chapters at major hubs.

SECTION 9: CONCLUSIONS

The aviation sector while currently growing rapidly is under-performing. Regulatory reform could reduce impediments faced by market participants with active and objective consideration of the early removal of remaining economic regulation impediments. The TCAA's well-regarded safety functions should be its predominant focus. In addition to a reduced economic regulation function this objective for TCAA would be assisted by the separation of its air traffic control function and its establishment as a separate entity.

Major state owned airports are under-performing and various improvements relating to governance are proposed. A short term implementable action plan is needed for each airport. ATISP charging should be clearly and transparently based on individual cost-centres, efficient cost recovery and assurances of cost-effective operation and development.

There should be a clear differentiation between cost recovering charges for regulatory and ATISPs on the one hand and specific aviation taxes, on the other. The study questions whether specific aviation taxes are the

least cost way of raising general government revenue but this depends on what other options are available to the government.

SECTION 10: RECOMMENDATIONS

We recommend that the Tanzania Air Operators Association pursues the following regulatory and ATISP reform package with the government:-

SHORT TERM

The government via MID request of TAA airport managers the urgent development, with airlines and ground handlers etc, a short term time bound action plan for complete implementation by the end of 2008 to address key problems for the next five years utilising all available resources at each major airport including private sector participation. Development and implementation of a satisfactory action plan for each major airport should be a key item in each manager's employment contract;

The Zanzibar government allows DCAZ to utilize sufficient of the revenue that itself collects at its airports together with mobilising resources from other industry parties to develop and implement by the end of 2008 a short term remedial action plan to improve service quality to satisfactory levels, actions that might cover

- a) extend and improve the runway,
- b) to consider extending the taxiway to the new threshold of rwy36,
- c) make changes to the terminal building to allow smoother and faster flow of passengers.
- d) improve the comfort level of checked-in and arriving passengers by improving the air conditioning, toilet facilities, etc in the terminal to cope with peak hours passenger numbers;

TAOA prepares a business case that seeks membership agreement to it:

- a) creating a full time secretariat, albeit small, with a permanent office and facilities.
- b) appointing a full time Executive Secretary who has an aviation background and capable of interacting with TAOA members and government institution important to the association;

MEDIUM TERM

(Economic regulation)

TCAA take the initiative with the Fair Competition Commission to agree on how competition rules imposed by their respective statutes should be applied in the aviation markets;

TCAA undertake a cost-benefit analysis of the ASL regime and advise the government, following consultation with customers on whether the regime should be abolished via legislative amendment;

TCAA cease economic regulation, including entry regulation, of firms providing services at airports in Tanzania;

(TCAA institutional issues).

TCAA should resist (or desist from) the temptation to involve itself in the day to day commercial operations of airports. TCAA needs to only issues general guidelines and directions to TAA and DCAZ;

Before TCAA introduces new rules TCAA should also undertake a cost-benefit analysis that explicitly considers costs to the industry, whether the rule is proportionate to the problem being address and whether lower cost options are available;

TCAA needs to determine transparently the actual cost of each regulatory output and its air navigation services using best practice cost attribution and allocation methods, consulting interested parties before finalising the allocations;

TCAA publishes its draft business plan covering a five year period covering its projections of regulatory services necessary given the projected market activity levels, the costs of each service together with investment requirements for the future and financial/charging implications and hold meaningful consultations with interested parties before finalizing its plan and annual budgets/charges;

TCAA develop proposals for the government's consideration which would separate TCAA's ANS from TCAA with the ANS being established as a stand alone business-like entity owned by the government;

(TAA)

Airports and TCAA be required to publish their draft business plan covering a ten year period covering demand for services, capacity assessment, development options, risks and financial implications for each major airport and hold meaningful consultations with its customers so that the two sides can match priorities to the means available before finalizing the plans and annual budgets/charges;

TAA prepare and publish performance and financial information airport-by-airport on a profit/cost centre basis;

TAA with the Ministry of Infrastructure Development develop proposals for the government's consideration to move TAA onto a business-like footing, allowing TAA more independence from its parent ministry so that the resulting transformation might have:

- a) a management structure similar to that of TCAA.
- b) the ability to utilize or have access to all the revenue it generates from charges and other sources set to recover its costs, airport-by-airport.
- c) a mandate to operate as a commercial institution.
- d) the ability to borrow from banks and other financial institutions within a clear framework set by the government to manage financial risk.
- e) the ability to contract for private sector participation within a clear framework set by the government as owner, linked to
- f) effective accountability to the government as owner for performance with appropriate risk management and mitigation;

TAA should continue its programme of running short courses and seminars to train air operator and other air service providers in airport safety;

(Department of Civil Aviation Zanzibar)

The Zanzibar Government be encouraged to implement its plans to allow DCAZ more independence from its parent ministry along the following lines:

- a management structure similar to that of TCAA;
- the ability to utilize or have access to all the revenue it generates from charges and other sources set to recover its costs, airport-by-airport;
- a mandate to operate as a commercial institution;
- the ability to borrow from banks and other financial institutions within a clear framework set by the government to manage financial risk;
- the ability to contract for private sector participation within a clear framework set by the government as owner, linked to

- effective accountability to the government for performance;

To facilitate implementation of decisions and faster response to the needs of airport users, the department should be allowed to have at its headquarters its own account unit, the ability to write its own cheques and an appropriate manpower/administration unit to handle staff matters with commensurate transparency, professionalism and accountability;

DCAZ needs to hold regular consultative meetings with airlines and other service providers as a group;

(Training)

Recommendations: TAOA should work with other stakeholders to create a mechanism that will define the training needs in the air transport and financing.

(TAOA)

TAOA seeks membership agreement to it:

- c) creating a full time secretariat, albeit small, with a permanent office and facilities.
- d) appointing a full time Executive Secretary who has an aviation background and capable of interacting with TAOA members and government institution important to the association
- e) select a liaison officer from members at each of its major hub ie Arusha, Mwanza and Zanzibar
- f) create a way of funding the association so that the leadership and the secretariat can perform according to the expectation of the members, subject to
- g) careful design of its arrangements so that it does not contravene the competition laws;

Mahmud Shamte,

B.R. Mcha,

Doug Andrew

List of Recommendations in the order Presented in the Report

Recommendation 1: We suggest that the TCAA take the initiative with the Fair Competition Commission to agree on how competition rules imposed by their respective statutes should be applied in the aviation markets.

Recommendations 2: TCAA should issue long term ASL and AOC for example five years.

Recommendation 3: TCAA undertake a cost-benefit analysis of the ASL regime and, following consultations with stakeholders advise the government on whether the regime should be retained or abolished.

Recommendation 4: TAA prepare and publish performance and financial information airport-by-airport on a profit/cost centre basis.

Recommendations 5:

(i) The Ministry of Infrastructure Development develop proposals for the government's consideration to move TAA onto a business-like footing.

(ii) The Zanzibar Ministry of Communications and Transport develop proposals for the government's consideration to move DCAZ onto a business-like footing.

Recommendations 6: TAOA urges that the governments to instruct TAA and DCAZ in association with the stakeholders to develop short term time bound action plans to address key problems for the next five years utilising all available resources.

Recommendation 7: TAA, DCAZ and TCAA be required to publish their draft business plan covering a ten year period covering demand for services, capacity assessment, development options, risks and financial implications for each major airport and hold meaningful consultations with its customers before finalizing the plans and annual budgets/charges.

Recommendation 8: TCAA develop proposals for the government's consideration which would separate ANS from TCAA with the ANS being established as a stand alone business-like entity.

Recommendation 9: TCAA cease economic regulation, including entry regulation, of firms providing services at airports in Tanzania.

Recommendations 10: TAOA need to engage TCAA to reassess the optimal number, incidence and amount of fees and charges imposed so as to ensure modest growth in the air transport as well as reasonable return on invested capital.

Recommendation 11: TAOA may need to discuss the non cash compliance procedures with TCAA and agree on a streamlined approach that would ensure that the rules and regulations by TCAA are adhered to and also that the air operators make a modest returns on the invested capital. An estimate of the time spent on compliance and its related monetary value may need to be established before approaching the TCAA for a formal discussion on the issue.

Recommendations 12:

- a) TAOA may need to engage TAA (and the government) to consider the level and effect on the air transport business of passenger service fees so as to arrive at an optimal fee level.
- b) Critical analysis of the TAA facilities needs to be studied so as to engage TAA on those areas that require attention in terms of capital assets and repairs and maintenance. The capital assets improvement requirements can be agreed in terms of immediate, short term, medium term and long term projects.

Recommendation 13: Before TCAA introduces new rules it should also undertake a cost-benefit analysis that explicitly considers costs to the industry, whether the rule is proportionate to the problem being address and whether lower cost options are available.

Recommendations 14: TAOA should work with other stakeholders to create a mechanism that will define the training needs in air transport and finance the training of the selected candidates

Recommendations 15

- a) We recommend that the Association have some office bearers on full time basis to look after its affairs. Such positions could include an Executive Secretary.
- b) TAOA needs to institute a proper financial management and accounting system. Such system would provide the policies and procedures governing utilisation of the various resources available with the Association and provide details of the various books, records and reports to be produced on a regular basis. These policies and procedures and accounting and reporting system should be documented in Financial Regulations and Accounting Procedures Manual.
- c) In order to implement the above recommendations, TAOA will need to reassess and streamline the various sources of funds including the amount of members' annual subscriptions to ensure that the Association is fully funded and the activities are run smoothly.
- d) The Association need to reassess its vision, mission and strategic objectives in order to and attract more air operators into its membership. The increased membership will assist TAOA to make impact on the air transport industry in Tanzania as there will be a unified collective voice of the air transport stakeholders for better air transport operations in Tanzania. In addition, having all (or almost all) air operators in the TAOA membership will mean increased revenues from membership subscriptions.

Recommendation 16: The government via MID request of TAA airport managers the urgent development, with airlines and groundhandlers etc, a short term time bound action plan for complete implementation by the end of 2008 to address key problems for the next five years utilising all available resources at each major airport including private sector participation. Development and implementation of a satisfactory action plan for each major airport should be a key item in each manager's employment contract;

Recommendation 17: The Zanzibar government allows DCAZ to utilize sufficient of the revenue that itself collects at its airports together with mobilising resources from other industry parties to develop and implement by the end of 2008 a short term remedial action plan to improve service quality to satisfactory levels, actions that might cover

- a) extend and improve the runway,
- b) to consider extending the taxiway to the new threshold of rwy36,
- c) make changes to the terminal building to allow smoother and faster flow of passengers
- d) improve the comfort level of checked-in and arriving passengers by improving the air conditioning, toilet facilities, etc in the terminal to cope with peak hours passenger numbers;

Recommendation 18: TAA with the Ministry of Infrastructure Development develop proposals for the government's consideration to move TAA onto a business-like footing, allowing TAA more independence from its parent ministry so that the resulting transformation might have:

- a) a management structure similar to that of TCAA.

- b) the ability to utilize or have access to all the revenue it generates from charges and other sources set to recover its costs, airport-by-airport.
- c) a mandate to operate as a commercial institution.
- d) the ability to borrow from banks and other financial institutions within a clear framework set by the government to manage financial risk.
- e) the ability to contract for private sector participation within a clear framework set by the government as owner, linked to
- f) effective accountability to the government as owner for performance with appropriate risk management and mitigation;

Recommendation 19: The Zanzibar Government be encouraged to implement its plans to allow DCAZ more independence from its parent ministry along the following lines:

- a management structure similar to that of TCAA;
- the ability to utilize or have access to all the revenue it generates from charges and other sources set to recover its costs, airport-by-airport;
- a mandate to operate as a commercial institution;
- the ability to borrow from banks and other financial institutions within a clear framework set by the government to manage financial risk;
- the ability to contract for private sector participation within a clear framework set by the government as owner, linked to
- effective accountability to the government for performance;

To facilitate implementation of decisions and faster response to the needs of airport users, the department should be allowed to have at its headquarters its own account unit, the ability to write its own cheques and an appropriate manpower/administration unit to handle staff matters with commensurate transparency, professionalism and accountability;

Attachment 1

LIST OF PEOPLE SEEN BY THE CONSULTANTS.

1. Dar es Salaam.

Tanzania Civil Aviation Authority.

- | | |
|-------------------|-----------------------------------|
| a) Mrs M Munyagi | Director General |
| b) Mr M.R. Alloo | Director Air Navigation Services. |
| c) Mr F Manongi | Director Economic Regulation |
| d) Mr J Njawa. | Ag Director Safety Regulation |
| e) Mr S Mteule | Finance Manager |
| f) Ms Arafa Jumaa | Senior Management Accountant. |
| g) Mr A Mfaume | Chief Industry Statistics. |

Tanzania Airports Authority

- | | |
|---------------------|--|
| a) Mr P. Tesha | Director General |
| b) Mr S. Suleiman | Director Engineering and Technical Services. |
| c) Mr M Malaki | Director Regional Airports |
| d) Ms F Makasi | Director Julius Nyerere International Airport. |
| e) Mrs S Mukanyanga | Commercial Manager TAA HQ. |
| f) Mr S Chilongani | Ag Manager Finance TAA |

Ministry of Infrastructure Development.

- | | |
|-----------------|---------------------------------------|
| a) Mr B Rufunjo | Director Transport and Communication. |
| b) Mr K Ndemino | Assistant Director Air Transport |

TCAA Consumer Consultative Council

Mr. Johari	Executive Secretary
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TAOA Member Firms

- | | |
|----------------------------|---|
| a) Mr. Abdulkadir Mohammed | Director, Tanzanair |
| b) Mr Nocola Colangelo | Director, Coastal Travel Ltd |
| c) Mr J Mpilli | Advisor, Coastal Travel Ltd |
| d) Mr M. Manji | Senior Manager Operations, Air Tanzania |
| e) Mr A Shara | Quality and Safety Manager, Precision Air |

BEST - AC

Ms Sarah Barlow	Team Leader
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Fair Competition Commission

Mr S M Nkelebe	Head Regulated Sector Studies.
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BEST- Better Regulation Unit

Mr O Nyangiro	Programme Economist
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2 Zanzibar.

Department of Civil Aviation Zanzibar

- | | |
|---------------------|---|
| a) Mr Malik Hanif | Director of Civil Aviation |
| b) Mr Amour Omar | Technical Manager |
| c) Mr. Badru A Juma | Airport Manager, Zanzibar International Airport |

Zanzibar Air Services and Travel Ltd (ZAT)

- | | |
|--------------------|-------------------------|
| a) Mr Marhoon Taby | Chief Executive Officer |
| b) Mr Hassan Ngozi | Manager ZAT |
| c) Mr. Hassan Musa | Assistant Manager |

Tropical Air

- | | |
|---------------------|-------------------|
| a) Captain Omar | Managing Director |
| b) Mr Hashim Farouk | Manager |

Zan Air

- | | |
|-------------------------|-----------------------------|
| a) Mr A Carl | Managing Director |
| b) Mr. Ashish Nagewadia | Admin & Reservation Manager |

Tanzania Civil Aviation Authority

Mr A Sumry	Civil Aviation Manager.
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3 Arusha

Airport Management TAA

Mrs M Dede	Airport Manager
Mr A Maulidi	Assistant Airport Manager, Security
Mr C Kimaro	Operations Officer

Air Excel

Ms An Welvis	Director
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Coastal Travels Ltd

Mr R. Ruzaura	Arusha Station Manager
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Kilimanjaro Airport Development Company ltd

Mr J Urrio	Manager Operations KIA
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TCAA cease economic regulation of ground hand services at airports.	TCAA Implementing agency	This would allow competition between firms providing services at airports.
The government via MID request of TAA airport managers the urgent development, with airlines and DCAZ to make the directors aware of the main dependencies for complete implementation by the end of 2008 the address key problems for the next five years utilising all available resources at each major airport including private sector participation. Development and implementation of a satisfactory action plan for each major airport should be a	TAA	Major aim of a rapid development to provide adequate service quality to avoid the risk of air fines years ahead of implementation of major subjects to different policies and different agencies in respect of the same conduct.
TCAA and each manager be on employment contract ASL regime and advise the government, following consultation with customers on whether the regime should be retained or abolished .	TCAA	It is likely that a rigorous analysis would show that while there are costs from ASLs there are few or no
The Zanzibar government allows DCAZ to utilize sufficient of the revenue that itself collects at its airports together with mobilising resources from	DCAZ	Zanzibar in addition to what it achieves during its service quality
Different TCAA parties to develop and in April 2008 a cost-benefit analysis to be completed to consider serious quality in the industry to the extent that it might be the problem being address and whether lower cost and improve the taxiway, to consider extending the taxiway to new threshold of rwy36,	TCAA	This should be a key feature that, all TCAA explicitly the taxation of proposed major cost investment programme.
TCAA needs to make changes to the currently the actual to allow each regulatory factor of passenger services using the most practical cost-recovery and allocation methods using passenger level of providing facilities, etc in the terminal cope with peak hours passenger numbers.	TCAA	TCAA would know what 'drives' its costs and hence what represents the most efficient and fair form of cost-recovery via charges.
TCAA publishes its draft business plan covering a year period covering its projections of regulatory	TCAA	Greater transparency including providing for a
TCAA prepares a business case for the market activity levels to be agreed for each service together with investment requirements a full financial statement, all financial charges in the office and facilities meaning consultations with interested parties before finalizing the annual budgets/charges	TAOA (hire consultant?)	TAOA strategic dialogue to be supported by a more effective TCAA efficiency process to be of business and indicate a willingness to pay for it. They will expect a sound business case though
institution important to the association.		showing costs, implementation plan and the additional outputs that they can expect TAOA to generate on their behalf.
TCAA cease economic regulation of ground hand services at airports.	TCAA	This would allow competition between firms providing services at

<p>TCAA develop proposals for the government's consideration which would separate TCAA's ANS from TCAA with the ANS being established as a stand alone business-like entity</p>	<p>TCAA/MID</p>	<p>Implementation would reduce apparent conflicts of interest between regulator and service provider and allow better focus by each new organisation.</p>
<p>Airports and TCAA's ANS be required to publish their draft business plan covering a ten year period covering demand for services, capacity assessment, development options, risks and financial implications for each major airport and hold meaningful consultations with its customers so that the two sides can match priorities to the means available before finalizing the plans and annual budgets/charges.</p>	<p>TAA and TCAA's ANS</p>	<p>This would ensure greater alignment between service providers and customers in respect of services to be provided and the consequential charges.</p>
<p>TAA prepare and publish performance and financial information airport-by-airport on a profit/cost centre basis.</p>	<p>TAA</p>	<p>TAA, the government and customers would have a better idea of what drives</p>
<p>TAA with the Ministry of Infrastructure</p>	<p>TAA/MID</p>	<p>TAA costs</p>
<p>The Zanzibar Development proposals encouraged to government to consider allowing DCAZ into a independent-like footing, allowing it to stand along the following lines from its parent ministry so that the resulting transformation might have a structure similar to that of TCAA. the ability to utilize or have access to all the ability to utilize cash from charges and other sources generated from charges costs, other sources airport-by-airport costs, airport-by-airport. a mandate to operate as a commercial institutional institution; the ability to borrow from banks and banks financial institutions within a framework by the government to manage financial risk; the ability to participate in a certain framework set by the government as the government stakeholder, linked to effective accountability to the government as owner for performance with appropriate risk management and accountability to</p>	<p>DCAZ</p>	<p>Designs, implemented and designed, implemented and sustained business-like approach to airport development and including development including customer financing of development and handling of the development to perform the current institutional/governance arrangements.</p>

<p>The Zanzibar Government be encouraged to implement its plans to allow DCAZ more independence from its parent ministry along the following lines:</p> <ul style="list-style-type: none"> a management structure similar to that of TCAA; the ability to utilize or have access to all the revenue it generates from charges and other sources set to recover its costs, airport-by-airport; a mandate to operate as a commercial institution; the ability to borrow from banks and other financial institutions within a clear framework set by the government to manage financial risk; the ability to contract for private sector participation within a clear 	<p>DCAZ</p>	<p>This, if successfully designed, implemented and sustained, could allow a more business-like approach to airport management and development including customer focus and commercial funding of developments.</p>
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INFORMATION NOTE

EU-Morocco Euro-Mediterranean air transport Agreement

1. Introduction

The Commission services negotiated a Euro-Mediterranean air transport agreement with the Kingdom of Morocco, on the basis of a mandate agreed at the Transport Ministers' Council of the European Union of 10 December 2004. The negotiations were launched in May 2005 in Rabat and in total five rounds of negotiations took place.

The Agreement was initialled at Marrakech on 14 December 2005 by Vice-President Barrot and Minister Ghellab. Internal procedures have been launched (in Europe, submission to the Council of Transport Ministers of the European Union) in view of signatures mid-2006.

The Euro-Mediterranean agreement in the field of aviation between the Community and the Kingdom of Morocco is not merely an agreement to open markets between the two parties but also includes an extensive alignment of aviation legislation with key parts of the Community rules and regulations, including on safety, economic regulation and in particular competition laws, air traffic management and consumer protection. The agreement would also offer a gradual opening of market access between Morocco and the EU, providing substantial opportunities for passengers and industry on both sides. Finally, this agreement provides a concrete example of what can be achieved within the Euro-Mediterranean partnership.

2. Background and objective of the Agreement:

In March 2005, the European Commission presented a Communication on external aviation relations, followed in June 2005 with Conclusions of the Council of Transport Ministers of the EU. These texts set an ambitious roadmap to develop the external aviation relations of the European Community, according to which the EU policy is based on three pillars which respectively aim at 1- ensuring legal certainty of existing bilateral agreements notably through new designation clauses, 2- developing the wider European Common Aviation Area by 2010 and 3- establishing a web of new comprehensive agreements laying out the inseparable twin aims of, on the one hand, market opening creating new economic and investment opportunities and, on the other hand, a process of regulatory convergence that ensures a satisfactory level playing field with fair and equitable competition conditions.

The European Common Aviation Area seeks to cover all neighbourhood countries of the European Union.

Along these lines, the UE – Morocco agreement is clearly the test-case and the first of a new generation of agreements of unprecedented scope and value. As a matter of fact and if one excepts the case of the EU – US negotiations, the text is the first agreement in the history of the EU with a country located outside Europe. Moreover, it covers issues not only of traffic and basic economic rights, but of all fields of the aviation operations. It may therefore serve as a reference for any other neighbouring countries who may wish to harmonize their legislations with the Community in order to promote economic interdependence.

Market opportunities will also increase: with a Moroccan population of around 31 million and an EU population of 450 million, current annual growth of air traffic is already around 7%. Removal of all capacity limitations between Morocco and the EU may also attract new entrants to the market and create opportunities to operate to underserved airports. New rights in code-sharing and wet-lease will provide further opportunities to the carriers and develop the market. But above all, it is a tool to bring people on both sides closer together and promote economic activity.

3. Content of the Agreement

The negotiations of the horizontal agreement (correction of existing bilateral agreements to include notably the right of establishment) took place in February 2005. Negotiations for a global EU – Morocco agreement started in May. The latter is organised in two phases:

- 1st Phase:

Regulatory convergence starts from Phase 1. The entry into force of the Agreement is upon satisfactory evaluation on some essential aspects, notably safety. Other elements such as the ban of State aids and main competition rules start from Phase 1.

Market access during Phase 1 is as follows:

For Moroccan carriers:

- unrestricted 3rd - 4th freedoms between Morocco and the EU;
- Moroccan carriers may operate from any point in Morocco to any point in Europe.

For EU carriers:

- unrestricted 3rd - 4th freedoms between the EU and Morocco;
- EU carriers may operate from any point in Europe to any point in Morocco including co-terminalisation.

- 2nd Phase:

The satisfactory implementation of the relevant European legislation as detailed in Annex 6 of the Agreement, as validated by a consensus decision of the Joint Committee, is a prerequisite for the beginning of Phase 2. This relevant European legislation covers the essential of some 28 European regulations or directives (e.g. safety, Air Traffic Management, denied boarding, environmental and noise restrictions etc.).

Market Access in Phase 2 is as follows:

For Moroccan carriers:

- consecutive 5th freedom rights in Europe.

For EU Carriers:

- 5th freedom passenger rights beyond Morocco to countries involved in the Neighbourhood Policy;
 - 5th freedom cargo rights to all third countries.
- Joint Committee:

From Phase 1, a joint body is established to discuss matters related to the implementation of the Agreement as well as decide the integration of new legislation into it. The Joint Committee will seek for the evolution of the Agreement, address social issues and economic proposals on ownership and control.

