

**Assessment of the effects of regulatory regime on the cost of air transport in  
The East African Community\***

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## **ABBREVIATIONS**

AA	Airport Authorities and or
ASAs	Air services Agreement
BASAs	Bilateral Air services Agreement
COMESA	Common Market for Eastern and Southern Africa
CAA	Civil Aviation Authority
EAC	East African Community
FIR	Flight Information Region
IATA	International Air Travel Association
ICAO	International Civil Association Organization
MTOW	Maximum Take Off Weight
NAFISAT	North- East Africa and Indian Ocean
SADC	South African Development Community
YD	Yamoussoukro Declaration

## **Abstract**

This study has analyzed the air transport regulatory framework in East African Community (EAC) and assessed its effect on the competitiveness of the air transport sector. Air transport regulatory environment in EAC Partner State countries is influenced by the existing Bilateral Air services Agreement (BASAs) for respective countries and domestic air services regulatory environment for aviation industry at the national level. Although most BASAs in EAC provide substantial liberalization according to the Yamoussoukro Decision (YD), they provide a limited fifth freedom and limit operations of EAC Partner States designated airlines in the respective contracting party state. Different regulations at the national level lead to different passenger services charges, landing, navigation, security and other surcharges such as those related to lighting during landing or taking off at night. Airline related charge components (basic fare and surcharges) account for the largest proportion of fares. East African Community's market for air transport is large; cargo traffic is relatively low; and demand and supply for passenger and cargo services has been on the increase. Domestic, transit and international passenger and air cargo movements in EAC have also been on increase. Factors constraining growth of air transport in EAC region include: low cargo and passenger movements; uncompetitive domestic and BASAs regulatory regime; fiscal policies; high insurance premiums; management inefficiencies and perceived security and safety oversight limitations; pricing method and structure; and limited physical aerodromes and related facilities. The study concludes that regulatory regimes in e.g. (both domestic and BASAs) contribute to less competitiveness of EAC air industry. For an enhanced accessibility and affordability of the air transport sector in the EAC, the study recommends: improvement of air transport physical infrastructure by increased investments in the main airport and key aerodrome facilities; harmonization of regulatory fees and charges in the region to enhance a level playing field; provision of national treatment to air transport service operators, passengers and cargo in all the EAC Partner State countries; liberalizing air transport services in EAC, beyond the current provision of providing limited fifth freedoms; promotion of low cost carriers to reduce high tariffs in the region; implementation of competition policy and regulatory regime; and; elimination of BASAs and embracing an EAC air services agreement (EAC ASA) among other actions targeted to the air transport sector.

# 1. Introduction

## 1.1 Background

Air transport industry is an important mode of transport for any country. It is more specifically important for movement of people and perishable goods such as fresh produce including fruits and vegetables, floriculture related products and fresh fisheries and related products among others. Air transport is particularly important for the growth of tourism, trade and investment of perishable goods.

The importance of transport costs has been increasing with liberalization, with transport costs increasingly accounting for a significant proportion of the total trade costs. Determinants of transport costs include: distance, geography, infrastructure, administrative barriers and the state of competition in the transport industry (Alejandro and Serebrisky, 2004). Transport infrastructure has also been shown to affect the costs of transport, and poor infrastructure could account for more than 40 percent of transport costs (Limã and Venables, 2001). Similarly improvement of port efficiency has been shown to reduce shipping costs significantly (Clark, Dollar and Micco, 2004). Regulations and policies in maritime industry have been argued (Fink, Matoo and Neagu, 2002) to significantly affect maritime transport costs.

The importance of infrastructure and regulations in the air transport sector has been shown by (Alejandro and Serebrisky, 2004), who found that an improvement in airport infrastructure from the 25<sup>th</sup> to 75<sup>th</sup> percentiles has been found to reduce air transport costs by 15 percent, while improvement in the quality of regulation reduces air transport costs 14 percent. Open Skies agreements have also been shown to reduce air transport costs by 8 percent.

EAC Partner State countries have signed agreements at both regional and international levels which contribute to air transport liberalization. At the international level and multilateral level, the EAC Partner States are party to the Yamoussoukro Decision of 2000 and are also Members of the WTO respectively. At the regional level, in 1997, the Partner States undertook a civil services reform which led to the establishment of an autonomous Civil Aviation Authorities with responsibilities for safety and economic regulations of the air transport at the national level in various countries. In 2010, the region further embraced liberalization in services as a part of its Common Market Protocol. Regardless of the

transformation of the air transport regulatory system, the air transport market in the EAC is still under tight regulation and control of the governments hence denying fair competitions among the operators within the region. The region has continued to depend on restrictive Bilateral Air Service Agreement (BASA) in granting market accesses rights (schedules, frequencies, and capacities) among themselves.

Despite the commitments of the EAC Partner States at international level, and the EAC integration efforts through Common Market at the regional level involving liberalization of services, the EAC domestic air transport sector remains protected, thus translating into less accessible and affordable air transport, at the expense of potential users. Air transport in East Africa is still expensive by international standards; as is exhibited in the current high passenger airfares and freight charges. Flight costs (both passengers and cargo flights are high in the EAC region), thus contributing to a high cost of doing business. The main components of determinants of air flight costs are: operational costs such as fuel costs; landing; parking and handling; catering charges; and; taxes.

At the national level, each of the Partner States implements cabotage laws in the transport sector, this particularly in the air transport sector limiting the operation of planes in various Partner States limiting planes landings to only a few international airports. In addition, Partner States planes are treated as international flights, therefore having to pay charges equivalent to those paid by flights from extra- EAC region.

## **1.2 Objectives of the study**

The overall objective of this study was to assess air transport regulatory environment and its effects on the cost of air transport across the EAC Partner States.

### **The specific objectives were to:**

- i. Analyze the air transport regulatory framework in EAC including safety,
- ii. Assess the effect of the regulatory framework on the competitiveness of the air transport sector, and,
- iii. Develop and recommend the appropriate regulatory reforms that can enhance the competitiveness of air transport sector in the EAC.

### **Specific tasks**

1. Analyze the East African Community's market for air transport.

2. Analyze air transport regulatory framework and assess its effect on the cost of doing business in the region.
3. Analyze the factors constraining the growth of air transport such as traffic volume (passenger, cargo and aircraft movements), pricing methods and structure, and physical facilities.
4. Analyze regional travel traffic (passengers and cargo and aircraft movements) volumes and trends over past three years.
5. Provide comparative analysis of international/regional/domestic/ fares and rates (structures) for scheduled transport of passengers and freight/cargo. The intent is to ascertain how fares and rates vary according to distance from one route group to another.
6. Develop and recommend the appropriate regulatory reforms that can enhance accessibility and affordability of the air transport sector in the EAC.

### **1.3 Study methodology**

To realize the objectives of this study, desk research and consultation of stakeholders in air transport industry in EAC was undertaken.

#### **1.3.1 Desk research**

The desk research involved review of the relevant literature and existing secondary data analysis. Key literature and existing data reviewed and analyzed include:

- Domestic and regional air transport regulations,
- Data on traffic volume (passenger, cargo and aircraft movements),
- Data on prices, pricing methods and structure, and physical facilities,
- Data on regional travel traffic (passengers and cargo and aircraft movements) volumes over past three years,
- Data on international, regional and domestic fares and rates (structures) for scheduled transport of passengers and freight/cargo,
- Data on different airlines fares and rates among route groups in recent years.
- Recent work on air transport including global competitiveness, performance and regulatory charges.

### **1.3.2 Field consultation with air industry players in EAC**

Field visits were undertaken in the month of July with a purpose of consultation with industry players in each of the EAC Partner State countries. Key Aviation industry players in each EAC Partner State were consulted including: civil aviation associations or authorities, key regional airlines and exporters in the region who use air transport, Ministry of Transport and representatives of clearing and forwarding industry.

The field visits and consultations aimed at gathering information on:

- Desegregation of flight fares for both passengers and goods,
- National regulations and regulatory charges on the aviation sector,
- Recommendations to inform regulatory reforms to enhance accessibility and affordability of the air transport sector in the EAC.

## **2. Analysis of the East African Community's market for air transport**

### **2.1 Demand for air transport services**

Globally, demand for air transport has been on the increase, as evidenced by increase in air passenger numbers, increase in load factor and increase in capacity. For subSaharan Africa including the EAC region, on overall, traffic has been growing at about 6 percent a year from 1997 to 2006, with the market growth being estimated to be strongest in Southern and Eastern Africa. Increase has been on the three categories of air travel including domestic, regional and intercontinental. International traffic within Sub-Saharan Africa (including EAC) grew slightly faster, at an average of 6.5 percent per year.

This growth in air passenger traffic suggests a possible increasing demand for passenger air transport in the EAC region. According to IATA (2013), between May 2012 and May 2013, overall air travel passenger demand rose by some 5.6%, while capacity climbed 5.2% pushing the load factor up 0.3 percentage points to 78.1%. The strongest growth occurring in the emerging markets of Africa, Latin America and the Middle East.

For African airlines in particular, traffic climbed 9.8% in May, making the region the second highest in growth among the other regions globally. Drivers of this growth are expanding trade volumes in developing countries with links to Africa including Asia and

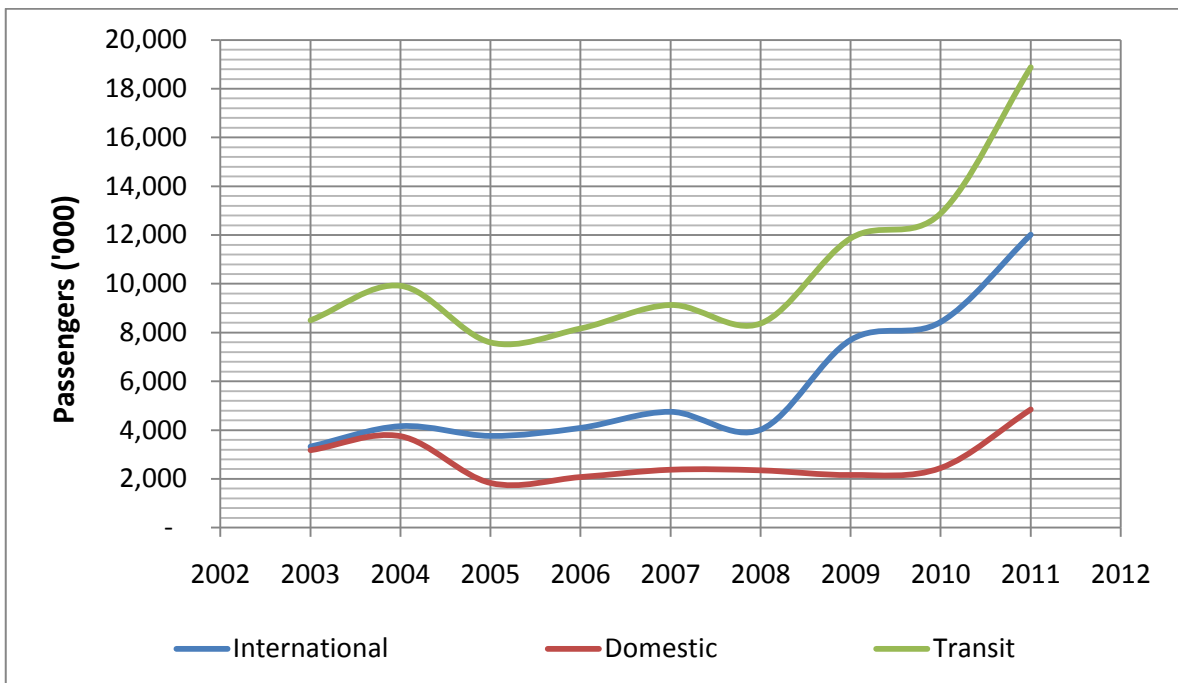


the Middle East. Strong GDP growth in local economies in Africa also accounts for this growing trend. As observed by IATA between May 2012 and May 2013, capacity rose by 7.4%, raising the load factor 1.4 percentage points to 66.2%.

Within the EAC, the domestic air transportation network provides links between international airports and a series of smaller airports. Some of these are in remote locations inaccessible by surface transport. The importance of an efficient domestic air transportation network as a complement to the inadequate surface transportation system in the sub-region thus cannot be overemphasized. In most areas of the EAC, the domestic air transportation network is more important than international air services and fulfills many functions. For example, these airports (aerodromes) may be the only infrastructure available in times of natural disasters such as floods and disease outbreaks and they play leading roles in famine relief operations, and are extremely useful for geological and/or mineral exploitation, geodetic surveys, and mapping as well as foreign exchange to the partners.

Although it was difficult to find statistics on regional air transport, a study by East African Community and AfDB (2011) estimated that passenger air traffic between the eight international airports within the EAC is about 5 million persons per year. Traffic between Nairobi, Dar Es Salaam and Entebbe is estimated to account for a quarter while traffic between Nairobi and Mombasa accounts for another quarter. Air passenger traffic is larger than road passenger traffic between the EAC countries, the latter amounting to some 4 million persons per year. Figure 1 shows trends in air passenger traffic in EAC for domestic, transit and international categories. Passenger traffic in all the three levels has been on the increase.

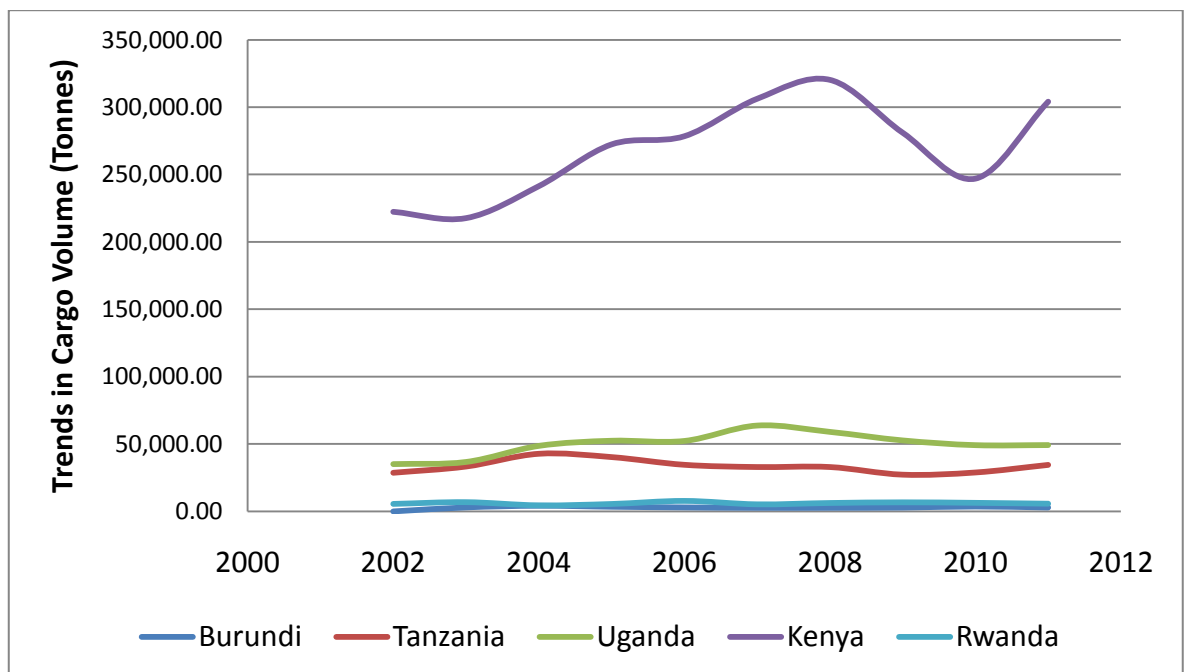
**Figure 1: Trends in passenger traffic in EAC**



Source: EAC (2012)

Unlike the passenger traffic, cargo traffic remains relatively low and has shown a rather stagnating trend. Field consultations during the study indicated that there are not enough cargo services available. Figure 2 shows the volume of airfreight in each of the EAC Partner State countries. It is captured by statistics of air freight, including the volume of freight, express, and diplomatic bags carried on each flight stage (operation of an aircraft from takeoff to its next landing), measured in metric tons times kilometers travelled.

**Figure 2: Trends in air cargo**



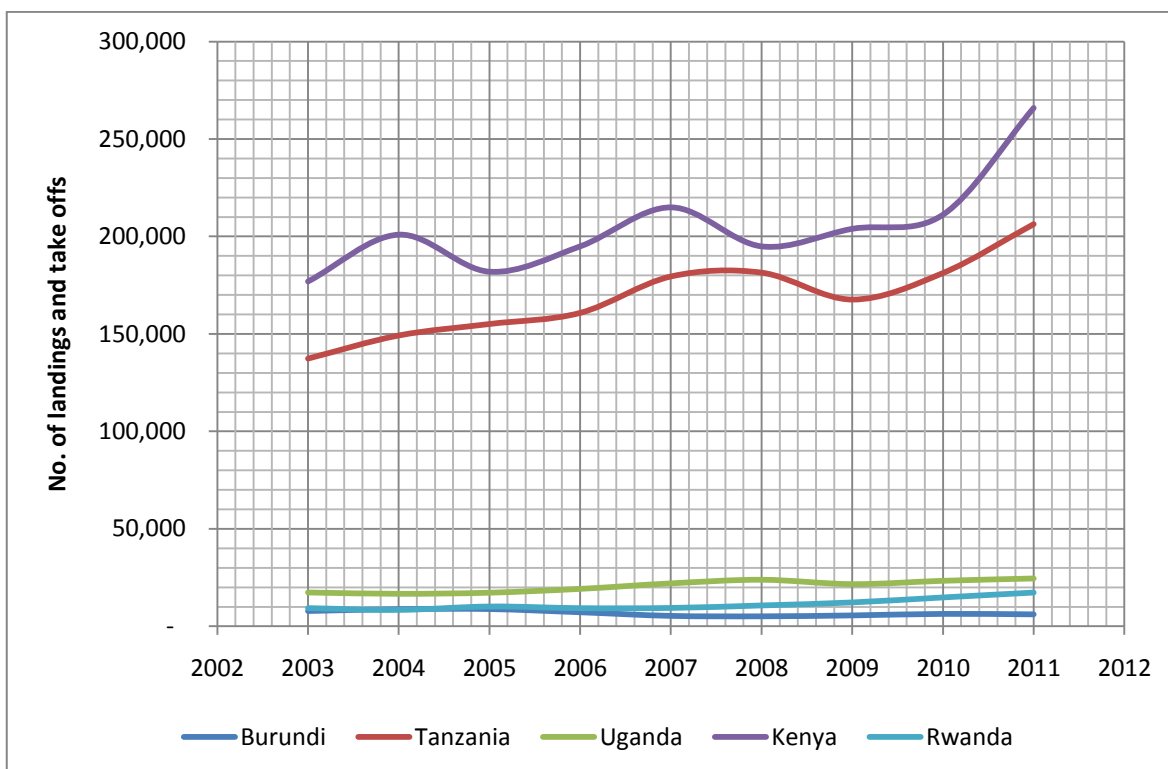
Source: EAC (2012)

KCAA (2012) observed that passenger numbers have grown by 66.3% since 2003 and reached over 7.9 million by the end of 2011 in Kenya international airports. Aircraft traffic landing and taking off from Kenya’s airports has also increased by 32.1% from 176,284 in 2003 to 232,840 in 2011 while freight traffic increased by 25.5% during the same period to reach 273,619 Tones.

## 2.2 Trends of regional travel traffic movements over the past three years

Traffic volumes including passenger, cargo and aircraft movements although on an increasing trend (Figure 3) in EAC constraint growth of the air transport. Compared to other countries, aircraft movements, estimated by departures per 1000 population is low (Table 2). The passenger load factor in Africa (including EAC) is also lower than that of other countries standing at 68 percent in Africa while it is 80.3 percent globally.

**Figure 3: Increasing trends of aircraft movements (landings and take offs)**



Source: EAC

Table 1 shows trends of passengers and cargo movements in EAC countries for the last 3 years.

**Table 1: Trends in passengers**

Indicator	Partner State	2009 (number)	2010 (number)	2011 (number)	% change
International	Burundi	183	195	228	24.8
	Tanzania	1,262	1,385	1,617	28.1
	Uganda	929	1,023	1,086	16.8
	Kenya	5,086	5,553	8,722	71.4
	Rwanda	240	277	357	48.7
	<b>East Africa</b>	<b>7,700</b>	<b>8,434</b>	<b>12,010</b>	<b>55.9</b>
Domestic	Burundi	-	-	-	-
	Tanzania	1,492	1,729	1,989	33.3
	Uganda	18	12	10	-46.9
	Kenya	642	697	2,833	341.1
	Rwanda	6	9	21	250
	<b>East Africa</b>	<b>2,158</b>	<b>2,447</b>	<b>4,853</b>	<b>124.8</b>
Transit	Burundi	-	-	-	-
	Tanzania	227	261	320	40.9
	Uganda	49	76	72	45.6
	Kenya	1,160	1,267	1,480	27.6
	Rwanda	20	26	32	60
	<b>East Africa</b>	<b>1,456</b>	<b>1,629</b>	<b>1,904</b>	<b>30.7</b>
<i>All passenger categories</i>	<b>East Africa</b>	<i>11,314</i>	<i>12,510</i>	<i>18,766</i>	<i>65.9</i>

Source: EAC

Domestic, transit and international passenger movements in EAC have increased in the last three years. On overall, the three categories increased by about 66 percent, with the largest increase of 124 percent taking place in transit followed by international and domestic movement at 55 and 30 percent respectively. International and domestic movements increased the most in Kenya, with Uganda experiencing domestic decline. Transit movements increased the most in Rwanda.

Table 2 summarizes trends in cargo movements in the region over the last three years. Overall growth in cargo in the region was about 7 percent. The largest growth in cargo (26 percent) was experienced in Tanzania. Both Burundi and Kenya experienced a growth in cargo movements of about 1.7 and 8.2 percent respectively. Uganda and Rwanda experienced decline in cargo movements.

**Table 2: Trends in cargo**

Country/ Year	2009	2010	2011	% Change
<b>Burundi</b>	2,775	3,524	2,822	1.7
<b>Tanzania</b>	27,236	28,861	34,456	26.5
<b>Uganda</b>	52,643	49,097	49,165	-6.6
<b>Kenya</b>	281,087	246,957	304,130	8.2
<b>Rwanda</b>	6,724	6,352	5,721	-14.9
<b>Total EAC</b>	370,465	334,791	396,294	6.9

Source: EAC

Trends in the aircraft movements (landings and takeoffs) in EAC are presented in Table 3.

**Table 3: Trends in aircraft movements (landings and taking off) for last three years**

Country/ Year	2009	2010	2011	% change
Burundi	5,655	6,427	6,189	9.4
Tanzania	167,610	181,240	206,334	23.1
Uganda	21,619	23,320	24,506	13.4
Kenya	204,000	211,234	266,000	30.4
Rwanda	12,216	14,766	17,255	41.2
<b>Total EAC</b>	<b>411,100</b>	<b>436,987</b>	<b>520,284</b>	<b>26.6</b>

Source: EAC

On overall, aircraft movements increased by over 26 percent in the last three years, with the increase being largest in Rwanda and being smallest in Burundi.

### 2.3 Air infrastructure facilities

Trends in number of air infrastructure facilities in EAC are presented in Table 4. The number of airport facilities in the region has not increased as shown in the Table 4. This is despite the increased passenger and cargo traffic in the region as shown above.

**Table 4: Trends in number of airports and aerodromes in EAC Partner State countries**

Indicator	Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Main Airports	Burundi	1	1	1	1	1	1	1	1	1	1	1	1
	Tanzania	3	3	3	3	3	3	3	3	3	3	3	3
	Uganda	-	1	1	1	1	1	1	1	1	1	1	1
	Kenya	4	4	4	4	4	4	4	4	4	4	4	4
	Rwanda	2	2	2	2	2	2	2	2	2	2	2	2
	<b>East Africa</b>	-	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
Aerodromes	Burundi	-	-	-	1	1	1	1	1	1	1	1	1
	Tanzania	59	59	59	59	59	59	59	59	59	59	59	59
	Uganda	-	-	-	-	-	-	45	54	54	54	54	54
	Kenya*	-	-	-	-	-	-	-	-	-	-	156	156
	Rwanda	3	-	-	-	-	3	3	3	3	3	3	3
	<b>East Africa</b>	-	-	-	-	-	-	-	-	-	-	-	-

Source: EAC (2013)

\*Public aerodromes: Source Republic of Kenya (2009).

## 2.4 Competitiveness of air transport in EAC

Globally EAC countries' air transport does not rank well in competitiveness as shown by the global competitiveness index (WEF, 2013). Kenya, the best in the ranks was 77, Burundi, 138, Rwanda 103, Tanzania 118 and Uganda 120, all out of 138 countries. Table 5 shows competitiveness indicators of air transport in EAC Partner State countries.

**Table 5: Indicators of Air transport competitiveness in EAC Partner States (Rank/138)**

Indicators	Burundi	Kenya	Rwanda	Tanzania	Uganda
Quality of air transport infrastructure	135	65	84	118	106
Airline seat kms/week, dom., millions	105	46	97	115	101
Airline seat kms/week, int'l, millions	138	51	135	48	101
Departures/1,000 pop	120	97	na	88	135
Airport density/million pop	129	114	121	111	130
No. of operating airlines	137	57	134	110	90
International air transport network	120	54	75	125	76

*Source: WEF (2013)*

## 2.5 Factors constraining EAC air transport

### 2.5.1 Air transport infrastructure

Among the key factors affecting air transport industry in EAC is physical facilities. Physical facilities including the number of international airports in EAC are few and have not increased in recently as shown in Table 4 above. Domestic aerodromes (areas used for the arrival or departure of commercial aircrafts) in different EAC countries are also limited as noted by Republic of Kenya (2009). Quality of air transport infrastructure is generally low and airport density for EAC Partner State countries are comparatively compared to other countries (5 above). Specific constraints in the infrastructure facilities include:

- Lack of adequate navigation equipment and maintenance in unmanned aerodromes,
- Lack of sufficient and effective linkages between airports and other transport modes, in particular railways and ports.
- In sufficient roads, electric power supply, Information Communication Technology, water and sanitation services in various aerodromes.
- Unsatisfactory state of air transport infrastructure such as the control towers and buildings housing radar stations which require rehabilitation.

- Missing linkage between air transport infrastructure and emergency medical aid and/or disaster management.

## **2.5. 2 Pricing methods and structure**

Air tariffs for both passengers and cargo in EAC region are high. The pricing method is liberalized have to be approved by the competent authorities in each country.

Tariffs and price structure consists of airline related charges, regulatory and service fee related charges and taxes; and security related charges (a detailed structure of the passenger ticket per route is shown in Tables 9a- 9c below). The airline related charges (base fare and surcharges) by far constitute the largest proportion of air passenger challenges.

### **2.5.3 Other factors**

Other factors constraining EAC air transport industry include: un competitive domestic and BASAs regulatory regime; fiscal policies such as airport taxes and VAT and limited subsidization on a sector which is otherwise highly subsidized globally; high Insurance premiums; management inefficiencies; security concerns and safety oversight among other factors.

## **3. Air transport regulatory environment**

Air services sector in EAC Partner State countries is covered by the existing Bilateral Air services Agreement (BASAs) for respective countries and the domestic air services regulations for each Partner State. The EAC Treaty (Chapter 5) on cooperation infrastructure and services, Yamoussoukro Decision of 1999, COMESA Legal Notice No. 2 of 1999 and under the recommendations of International Civil Association Organization (ICAO) on Air Services Agreements (ASAs) has influenced the domestic and the BASA related regulations.

Domestic regulations are implemented under different regulatory institutions at the national level with the Ministry of transport in each EAC Partner State being the chief regulator performing the primary functions of policy formulation and advisory; approval of: tariffs, international conventions, bilateral air services agreements and multilateral and regional agreements. Airport Authorities (AA) in Kenya, Rwanda and Tanzania facilitate aerodrome development, management and operations, while Civil Aviation Authorities (CAA) perform the tasks related to air services licensing, technical safety regulation, air navigation



services provision and related training. In Burundi and Uganda, the functions of aerodromes development, management as well as navigation and related services, training and licenses are undertaken by the respective civil aviation authorities.

### 3.1 Regulations at the domestic level

In each of the EAC Partner State countries, there are regulations governing the air transport services sector under respective airport authorities. The regulations spell out the functions of the respective competent authorities, and provide the respective regulatory fees and charges applicable to respective airports in respective countries, among other provisions. In section 3.1.1 to 3.1.5, charges applicable at different airports in EAC are summarized. In addition to the charges applicable, there are other regulatory fees charged by respective authorities related to air services operations, certification, purchase of publications, permits and training.

#### 3.1.1 Regulatory charges in Burundi

Landing and navigation charges are based on Maximum Take Off Weight (“W”). Navigation charges apply to airlines overflowing Burundi territory.

Landing and navigation charges in Burundi (Bujumbura)

Landing		Navigation charges	
Weight (T)	Charge (US\$)	Weight (T)	Charge (US\$)
< 1	20	> 6	3
1 - 6	$20 + (W-1) \times 3$	7 - 50	$18 + W \times 0.40$
6 - 20	$40 + (W-6) \times 3.6$	51 - 100	$18 + W \times 0.50$
20 - 50	$120 + (W-20) \times 5$	Over 100	$18 + W \times 0.60$
> 50	$280 + (W-50) \times 5.6$		

Source: *Source: ICAO (2010) and field consultations*

#### Parking charges

Parking charges are based on weight, start 2 hours after landing and depend of where parked: at apron they are US\$ 0.1 per hour, while maintainance area the charges are: 0.03,; 0.13 and 1.68 per hour, per day and per month respectively.

#### Other charges

- Lighting: For each landing or take-off requiring the use of lighting, a lighting surcharge of USD 200 per flight is added to the landing charges.
- Cargo charges of US\$ of 0.0012 per kilogram of freight imported or exported.
- Passenger service charge of US\$ 30 per passenger over the age of two years departing for a foreign destination
- Security charges of US\$ US\$ 10.0 per passenger over the age of two years departing for a foreign destination.
- VSAT Network flat rate Charge for South African Development Community (SADC) is levied when flights cross international FIR boundaries or international border of States

where air traffic control centres are equipped with a SADC VSAT satellite communications system. This consists of a flat rate of USD 9.60 per FIR crossing.

### 3.1.2 Regulatory charges for Kenya

**Landing/take off charges Based on Maximum Take Off Weight (MTOW) paid on takeoff only**

Weight	Charge (US\$)	
	JKIA, Moi and Eldoret, include Malindi, Kisumu, Wilson, Wajir and Lokichoggio (class 1& 2)	Garissa, Kitale and Lamu (Class 3)
< 1500	3	1
1,501 – 2500	6	1
2,501 - 5,000	8	1
5,001 - 10000	10	2
10,001 - 20000	20	3
20,001 - 40000	30	5
40,001 - 80000	50	8
80,001 - 120000	80	12
120,001 - 180000	100	17
189,001 - 300000	150	23
Over 300,000	180	30

Source: KCAA (2012)

Enroute charges (depend on applicable distance flown, recovery level of cost ‘p’ and on whether its a domestic or international flight)

#### Enroute charges for aircrafts making flights in the Flight Information Region (FIR)

Domestic		International	
Mass (Kgs)	Charges 100KM /(USD)	Mass (Kgs)	Charges 100KM (USD)
<2500	4.1	<2500	7.6
2500 - 5000	7.1	2500 - 10000	17.1
5001 - 10000	10.1	10001-20000	26.5
10001-25000	14	20001 - 50000	40.4
25001 - 60000	23.9	50001- 800000	55
60001- 100000	32.8	800001-150000	73.3
100001-150000	41.1	150001-200000	90.4
Over 150000	48.6	Over 200000	117.8

#### Parking charges

Aircraft weight (Kgs)	Charge (US \$) /day (starts after 6 hours)
> 10000	6
10,001 - 40000	10
40,001 - 80000	15
80,001 - 120000	25
120,001 - 180000	40

180,001 - 300000	50
< 300,0000	130

#### **Other Charges at the airport include**

- Passenger service charge of US\$ 40 for international departures and Kshs. 500 for domestic Departures.
- Surcharge for take off and landing at one fifth of landing charges for take off and five fifth of landing charges for landing respectively for lighting.
- Airbridge charges depend on cost of aircraft. Aircraft weight (kgs) of 2 000 to 180 000 Rate charges of USD\$ 75per 3 hours and over 180 000 chaegrs of US\$ 100.

### **3.1.3 Regulatory charges in Rwanda**

Landing charges are based on maximum Take off weight

<b>Landing charges</b>		<b>Air navigation charges</b>	
<b>Weight (KG)</b>	<b>Charge /1000Kg (US\$)</b>	<b>Aircraft weight (Kgs)</b>	<b>Charges (US\$)</b>
Upto 50,000	4.5	Upto 3500	20
Over 50,000	4.9	3501 - 10000	30
		10001 - 20000	35
		20001 - 95000	100
		95001 - 150000	180
		150001 -273000	250
		Over 273000	310

Source:

In addition to these charges, other various operator service certificates are also charged.

#### **Parking charges**

<b>Parking (based on MTOW)- applicable after 6 hrs after landing</b>	<b>Parking charge US\$</b>
Aircraft weight (Kgs)	
9001 to 27000	6
27001- 70,000	9
70001- 115000	13
115001 - 165,000	21
165,001 -270,000	31
Over 270,000	41

#### **Other charges paid at the airport include:**

- Passenger service charges of US\$ 37 and US\$ 8 are charged for the international and domestic departures respectively.
- Security charges for US\$ 5 and US\$1 for international depatures and domestic departures respectively.
- Flight cargo US\$ 1.

### 3.1.3 Regulatory charges for Tanzania

#### Air Navigation charges

For foreign registered aircrafts		For domestically registered aircrafts	
Air navigation services (SrR= Wf*Df)	Charge (US\$)	Aircraft Weight (Local aircraft )	US\$ (Equiv. TShs.)
< 1	40	5,670 kg (12,680 lbs) or less	30
1 - 2	60	5,671 kg up to 22,680 kg (12,501 up to 50,000lbs)	40
2 - 4	100	22,681 kg up to 90,718 kg (50,001 up to 200,000 lbs)	175
4 - 8	150	90,719 kg up to 181,437kg	275
8 - 12	175	Above 181,437 kg	350
12 - 15	210		
15 - 20	240		
20 - 25	275		
> 25	300		

Source: TCAA (2013)

#### Landing and parking charges

Landing /take off charges		Parking charges (depends on whether foreign or domestic registered (applicable after 2 hours of landing)			
Aerodrome	Aircraft registered in Tanzania (Tshs).	Foreign (US\$)	Aircraft weight (Kgs)	Domestic (Tshs)	Foreign
Dar es salaam, Kilimanjaro, Zanzibar and Pemba	5,500.00	5.00	< 20,000	1000 / 12 hours or part thereof	US \$5.00 per 12 hours or part thereof
Dodoma, Kigoma, Mtwara, Mwanza, Songea, Tanga and Tabora	4,950.00	4.50	20,000 - 60,000	1000 per 6 hours or part thereof	US \$5.00 per 6 hours or part thereof
Arusha, Bukoba, Biharamulo, Iringa, Kilwa Masoko, Lake Manyara, Lindi, Mafia, Mbey, Moshi, Musoma, Nachingwea, Njombe and Shinyanga	4,400.00	4.00	> 60,000	Tshs 1000 per hour or part thereof	US \$5.00 per hour or part thereof
Other Government Aerodromes	3,300.00	3.00			

Source: TCAA (2013)

#### Other charges

- Passenger service charge: US \$ 40 international and Tshs 30,000 domestic departures
- Security US\$ 8 for international departures
- Lighting surcharges: 30% of the landing charge

### 3.1.5 Regulatory charges in Uganda

Landing and air navigation charges are based on Maximum permitted all-up weight and number of journeys in Entebbe FIR.

#### Landing and navigation charges

Landing charges		Navigation charges	
Aircraft weight (Kgs)	US\$	Aircraft weight (Kgs)	US\$
> 54000	5	> 2 000	10
54001- 154000	6	2 001 – 4 000	20
54 001 - 154 000 and over	5	10 001 - 20 000	40
		20 001 - 95 000	125
		95 001 - 150 000	200
		150 001 - 273 000	280
		Over 273 000	330

#### Parking charges: Based on permissible weight, and charged 6 hours after landing

Aircraft weight	Charge/ 24 hours (US\$)
> 9 000	5
9 001 - 27 000	8
27 001 - 70 000	12
70 001 - 115 000	20
115 001 - 165 000	40
165 001 - 270 000	40
< 270 000	100

Source: *Source: ICAO (2010) and field consultations*

#### Other charges

- Lighting: 50% of the single landing charge for aircraft landing between 16:00 and 04:00 hours UTC
- Security charges: Payable by the operator and included in the passenger fare, International flights: US\$ 10.0 per departing passenger, and domestic flights: UgShs. 2 000 per departing passenger
- North-East Africa and Indian Ocean (NAFISAT) network charge levied per FIR crossing in NAFISAT equipped States' airspace. A charge of US\$ 10.00 per FIR crossing.
- Passenger service charges payable by the operator and included in the passenger fare at the rates of: US\$ 40.0 (+ 18% VAT) per departing passenger 2 years of age and over for international flights; and UgShs. 3 000 per departing passenger for domestic flights.
- Aerobridge charges of US\$ 60.00 for the 1st 3 hours and US\$ 60.0 per hour or part thereof after the 1st 3 hours.

Source: *Source: ICAO (2010) and field consultations*

### **3.2 Regulations at the EAC level**

Cooperation in infrastructure and services is provided for in the Chapter 15 of the EAC Treaty (EAC, 1999). Civil aviation and civil air transport are some of the areas identified for this cooperation.

With the respect to cooperation in this area, Article 92 identifies the areas of cooperation to include: harmonization of policies on civil aviation and facilitation of the establishment of joint air services and the efficient use of aircraft as steps towards the enhancement of air transportation within the Community. The EAC Partner States countries are to achieve this through:

- Adopting common policies to develop civil air transport in collaboration with other relevant organizations (such as African Airline Association, and ICAO, among others).
- Liberalizing the granting of air traffic rights for passenger and cargo operations.
- Taking measures to make air transport services safe, efficient and profitable.
- Harmonizing civil aviation rules and regulations.
- Establishing an upper area control system, that is, a system of air traffic.
- Control for the upper flight levels.
- Coordinating the flight schedules of designated carriers.
- Applying ICAO guidelines to determine user charges for scheduled air services.
- Adopting common aircraft standards and technical standards.
- Coordinating measures to ensure security for air operations.

### **3.3 Yamoussoukro Declaration and the EAC**

The Yamoussoukro Declaration by African countries in 1988, had a primary purpose of creating a conducive environment for the development of intra- African and international air services, leading to liberalization of air markets in Africa. As a follow up to this declaration, Yamoussoukro Decision (ECA, 1999), adopted by African countries provides for a gradual liberalization of scheduled and non-scheduled intra-Africa air transport services. Liberalization under this decision includes removal of restrictions on traffic rights including fifth freedom traffic (Box 1), capacity between city pairs, non-regulation of tariffs by governments, and multiple designation and frequencies among others.

#### **Box 1: Freedoms of the Air**

*First Freedom of the Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State or States to fly across its territory without landing (also known as a First Freedom Right).

*Second Freedom of the Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State or States to land in its territory for non-traffic purposes (also known as a Second Freedom Right).

*Third Freedom of The Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down, in the territory of the first State, traffic coming from the home State of the carrier (also known as a Third Freedom Right).

*Fourth Freedom of The Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State to take on, in the territory of the first State, traffic destined for the home State of the carrier (also known as a Fourth Freedom Right).

*Fifth Freedom of The Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down and to take on, in the territory of the first State, traffic coming from or destined to a third State (also known as a Fifth Freedom Right).

*Sixth Freedom of The Air:* the right or privilege, in respect of scheduled international air services, of transporting, via the home State of the carrier, traffic moving between two other States (also known as a Sixth Freedom Right). The so-called Sixth Freedom of the Air, unlike the first five freedoms, is not incorporated as such into any widely recognized air service agreements such as the "Five Freedoms Agreement".

*Seventh Freedom of The Air:* the right or privilege, in respect of scheduled international air services, granted by one State to another State, of transporting traffic between the territory of the granting State and any third State with no requirement to include on such operation any point in the territory of the recipient State, i.e. the service need not connect to or be an extension of any service to/from the home State of the carrier.

*Eighth Freedom of The Air:* the right or privilege, in respect of scheduled international air services, of transporting cabotage traffic between two points in the territory of the granting State on a service which originates or terminates in the home country of the foreign carrier or (in connection with the so-called Seventh Freedom of the Air) outside the territory of the granting State (also known as a Eighth Freedom Right or "consecutive cabotage").

*Ninth Freedom of The Air:* the right or privilege of transporting cabotage traffic of the granting State on a service performed entirely within the territory of the granting State (also known as a Ninth Freedom Right or "stand alone"cabotage).

Source: ICAO: <http://www.icao.int/Pages/freedomsAir.aspx>

Under Yamoussoukro Decision YD, Countries are required to designate airlines to benefit from the provisions. The eligibility criteria include that the airline has to be legally established in, be located and be licensed in the receptive state party. Other requirements

are that: the airline should be insured and be effectively controlled by the state party. In addition, a monitoring body was established to oversee the implementation of the decision. This liberalization especially the removal of restrictions of the 5th Freedom Traffic Right has led to increased intra- Africa traffic (World Bank, 2010). The provision that the designated airline be insured and be effectively controlled by the state party however poses special challenges as there is limited domestic investment in the air transport sector.

- **EAC Implementation of Yamoussoukro Decision**

EAC Partner State countries have attempted to take measures towards implementation of the Yamoussoukro Decision. In 2006, the 11th Meeting of the EAC Council of Ministers approved amendments to the existing Bilateral Air Services Agreements (BASAs) between States meant to align the BASAs with Yamoussoukro Decision provisions. In addition, the Council constituted the EAC Air Transport Sub-committee for implementation of the Yamoussoukro Decision.

The Review of BASAs by EAC Partner State countries has not been an easy task but countries have been reviewing their BASA nevertheless. Recently (August 2013) Rwanda and Burundi signed an open skies Bilateral Services Agreement for air services suppliers in both countries to each other's air space with unlimited frequencies.

EAC Partner State countries have also been preparing a multilateral services agreement, adopting the provisions of Yamoussoukro Decision at the EAC level.

### **3.4 Bilateral Air Services Agreements in EAC**

Regulations governing trade air transport services in EAC are the Bilateral Air Services Agreements (BASAs) negotiated between relevant EAC Partner State countries. The key features of some of these BASA are summarized in Table 6.

It is notable that most BASAs in EAC provide substantial liberalization according to the YD decision, especially with respect to the multiple designations of airlines and provision of the fifth freedom. The BASAs also provide, 1, 2nd, 3rd 4<sup>th</sup> and limited fifth freedoms. Establishment of tariffs provision in different BASAs is also liberalized.





**Table 6: Some key features of EAC BASAs**

Countries/provisions	Rwanda - Kenya	Rwanda - Tanzania	Rwanda - Uganda	Kenya - Uganda	Burundi - Rwanda
Date signed	2008	2006	2011	2008	2011
Designation of airlines	Multiple	2 Tanzania airlines, 1 Rwanda airline	Multiple	Multiple	No. Limitation on number
Ownership and control of designated airlines by contracting country or its nationals	yes	yes	no	-	-
Capacities	No limitations	No limitations	No limitations (depends on airline)	No limitations	No limitations
Frequency	No limitations	14 frequencies per week	No limitations (depends on airline)	No limitations	4 frequencies per week
Code-share arrangements allowed	Same country, the other country or third country	Allowed, with any airline with operational authorization	Same country, the other country or third country	-	Among the parties
Route schedule	Departure from each country, with intermediate points in Africa, Arrival at international points in the other country, and a departure from this points to other points in Africa	For the designated airline in Tanzania points in Kigali, intermediate points and points in Africa or elsewhere, while for the designated airline in Rwanda, routes include, Rwanda, intermediate points in Tanzania; Kilimanjaro, Zanzibar, Mwanza and Kigoma	Any points in contracting country to any points in the other country and any other points	Departure is any international points and arrival is any international point of the contracting parties; any points can be intermediate and points beyond.	Any points in each contracting party, intermediate and beyond
Fifth freedom	Provided in line with YD	Provided only on sectors where there is no designated airline of the contracting party	To be considered favourably on request	Provided In line with YD	Agreed at any intermediate or end point
Seventh Freedom	-	-	Provided for all cargo services		-

<b>Countries/provisions</b>	<b>Rwanda - Kenya</b>	<b>Rwanda - Tanzania</b>	<b>Rwanda - Uganda</b>	<b>Kenya - Uganda</b>	<b>Burundi - Rwanda</b>
Mutual recognition of certificates of air worthiness, competency and licenses	Provided	-	Provided		Provided
Fair competition	Provided for international routes covered by the agreement	-	Provided for international routes covered by the agreement	Fair competition and opportunity provided for	Provided for
Tariffs establishments	By designated airlines	By designated airlines	By designated airlines	By designated airlines	By designated airlines
Application of user charges	Indiscriminatively	Indiscriminatively	Indiscriminatively	Indiscriminatively	Indiscriminatively
Commercial opportunities	Right to establish office, choose ground handling services, right to sale air transportation	Adequate representation reciprocal basis	Commercial representation allowed	Right to establish office, choose ground handling services, right to sale air transportation	Right to sale air transportation

*Source: Respective BASAs*

The current BASAs however present some restrictions which are imposed by provisions in:

- Designated routes (route schedule), which in most of the cases include departure from one party's international (mainly capital city) airports to the other contracting party's international airport (s) or capital city.
- Cabotage rights (the transport of goods or passengers between two points in the same country by an aircraft registered in another country), which are not provided.
- Designation of beneficiary airlines conditions such as requirement for substantial ownership and effective control of the designated airline being vested on the contracting Party or its nationals. This is the case in some of the BASAs including those between Rwanda – Kenya; and; Rwanda – Tanzania.
- Limitations in capacity particularly in frequencies for example in the case of Rwanda and Tanzania's bilateral agreement. Any flights beyond the scheduled number are considered unscheduled and attract extra charges.

The above restrictions limit operations of foreign airlines (airlines registered in another EAC Partner State) and therefore are uncompetitive practices. Cabotage rights limit availability of domestic passenger and cargo flight services, prevent competition and lead to delays in transportation and higher transport costs. As a result, general local industry is currently dominated by non-scheduled flights, which do not provide optimal services to various parts of the country as observed by Republic of Kenya (2009).

The requirement for substantial ownership and control of designated airlines by contracting country or its nationals exists for some BASAs, yet there is inadequate local participation in the air operators sector by locals or by locals through partnership with foreign investors in all EAC Partner State countries. Ownership structure and control requirements in the BASAs impose an artificial industry structure on the air carrier sector that does not exist in other industries in EAC, and also limits the number of potential market entrants, and may therefore prevent realization of full benefits of competition including increased supply of air transport services and lower prices.

The BASAs limit foreign aircrafts to certain airports, mainly international airports, therefore discouraging competition and leading to non realization of the benefits of liberations.

### **3.5 Recent air transport services regulations at the EAC level**

In a bid to further liberalize air transport services in the EAC, the region has recently developed a set of new regulations ‘the EAC liberalization of transport services regulations’. The objectives of the regulations are to liberalize air transport services within the Community for development of industry and improvement of welfare of the citizens of the EAC Partner State countries.

The regulations apply to both scheduled and unscheduled international air services in the community. Regulations eliminate some of the key restrictions currently imposed by BASAs and provide first, second, third, fourth and fifth air traffic freedoms. Partner States could grant each other rights beyond the ones provided in the regulations at their own discretion. They also liberalize air transport tariff determination, with competent authorities in the Partner State countries not being required to approve tariffs charged by eligible operators. The regulations, in addition eliminate capacity and frequency limitations, with capacities and frequencies being left at the discretion of the air operators. Whether national control of air operators is an important eligibility criterion still remains an issue.

Two issues still remain not clearly addressed by the regulations: the provision of extending traffic rights beyond the fifth freedom and the requirement that designated airlines be owned or substantially controlled by locals.

### **3.6 The effects of regulatory environment on the cost of doing business in the region**

The restrictions by BASAs impose a set of country-specific quotas in each market (agreed route schedules between contracting party countries) in terms of the traffic flow. Competition on each Partner State’s route is limited to air transport suppliers designated by the relevant BASAs. Ownership nationality requirements imposed on the designated carriers’ further limit the scope of participation of foreign privately owned airlines, therefore reducing competition. They may also discourage foreign direct investment (FDI) in air transport sector, especially where the interest is regional market.

Traffic rights provided by the BASAs are negotiated on a reciprocal bilateral basis, instead of multilateral, and therefore imply fewer benefits as compared to Multilateral Air Services Agreements (MASAs). Cabotage discriminates between foreign trading partners and domestic firms in terms of market access. In addition, scheduled routes which are often limited to international airports of entry mean fewer routes are served by the designated carriers and therefore fewer options for travelers or cargo freight.

The BASA system imposes constraints on the ability of airlines to respond to increased competition for example by restricting airlines rights to enter new routes and to construct new networks. They also prevent airlines from attaining the various economies of scale and density that are available. The requirement that designated carriers be registered by the contracting Party further inhibits the ability of airlines to relocate offshore to lower their costs of operation.

Through frequency and route limitations; cabotage; requirements on ownership and control of aircrafts; and; requirement for registration at the contracting Party State, BASAs impact on availability of air travel and cargo services, and on the respective tariffs charged in EAC.

The current BASA arrangements limits the gains from international trade in air transport services sector, such as increased air transport passenger and freight services availability and choice; lower prices; and quality that are expected with increased competition as a result of liberalization. An important cost of doing business is the cost of transport. Determinants of transport costs include geography (particularly distance), infrastructure quality and regulations.

#### **4 Comparative analysis of fares and rates**

Micco and Serebrisky (2004) identify factors affecting air traffic tariffs as including:

- Regulations, which affects how air tariffs are set and the process of modifying them,
- Yield management strategies in passenger-cargo airlines. leading to directional differences in tariffs due to bilateral trade imbalances,
- Trade composition (products with higher unit value have higher charges per unit of weight), and,
- Competition regimes.

#### 4.1 Comparison of domestic, regional and international passenger fares

To ascertain how fares and rates vary according to distance from one route group to another, passenger fares of different route groups are analysed and presented in Table 7. Passenger fares in popular domestic, regional and international routes are compared using Amsterdam-Kilimanjaro- Amsterdam route as base.

**Table 7: Comparison of fares (2013)**

Route	Average passenger fare (USD)	Route Distance (Nautical miles)	Fare(US\$ /Nautical miles)	Fare ratio to AMS-Kilimanjaro
<b>Popular EAC regional- popular routes</b>				
Nairobi- Mombasa	153	238.17	0.64	3.9
Kilimanjaro - Dar	648	258.98	2.50	15.2
Nairobi- Kilimanjaro	298	125.23	2.38	14.4
Nairob- Dar es Salaam	560	362	1.55	9.4
Nairobi- Entebbe	307	274.6	1.12	6.8
KIA-KGL -KIA	1022	407.55	2.51	15.2
KIA/BJM/KIA	1035	438.13	2.36	14.3
Nairobi- Malindi	332	277.44	1.20	7.3
KIA-EBB-KIA	735	274.6	2.68	16.2
<b>Popular international routes</b>				
Nairobi- Amsterdam	698- 918	3597.6	0.26	1.5
AMS- Kilimanjaro	609.7	3698.4	0.16	1.0
Nairobi- Guangzhou	1480-1785	4688.1	0.38	2.3
Nairobi-London	558- 950	3683.6	0.26	1.6
Amsterdam - Bujumbura	896.5- 1904	3560.0	0.53	3.2

Source: Field consultations

From Table 7, it is clear that domestic and regional passenger fares in EAC countries are high, being several times higher than those of Amsterdam-Kilimanjaro-Amsterdam route. The highest route is Kilimanjaro – Entebbe- Kilimanjaro route, followed by Kilimanjaro-Kigali-Kilimanjaro route. The Cheapest of the regional routes is Nairobi-Entebbe- Nairobi being about 7times more expensive than Amsterdam-Kilimanjaro-Amsterdam route.

Popular international routes for EAC are also more expensive than Amsterdam-Kilimanjaro-Amsterdam route.

## **4.2 Comparing regulatory charges in EAC**

National regulations set by different airport and civil aviation authorities in various EAC Partner State countries impose costs in form of regulatory fees and service charges on aircrafts, cargo and passengers, therefore contributing to air tariffs determination directly or indirectly. Services offered by the authorities such as those related to flight information also attract charges including navigational charges, landing/takeoff charges, handling charges, parking charges, lighting (or higher charges during landing and taking off at night), aerobridge (air bridge), among other charges which contribute indirectly to passenger/ cargo tariffs charges. Other charges include security and service charge/ airport tax, among others. Airline related charges including fuel and insurance surcharge also contribute directly to the passenger tariffs.

Table 8 compares the charges by airport or civil aviation authorities at various EAC Partner State countries and those at Amsterdam, for an aircraft of Maximum Take Off Weight (MTOW) of 50,000Kgs. EAC Partner State countries' airport authorities' charges are similar to those charged by Airport authorities in Amsterdam. Charges include: landing, navigation, parking, passenger/airport tax and security. In addition, there are surcharges in both cases for landing at night. Landing charges are on average higher in EAC than they are for Amsterdam, while navigation charges are higher for Amsterdam than they are EAC countries. Parking and passenger service charges are higher in EAC than they are in Amsterdam while security charges are higher in Amsterdam.

Landing charges in EAC Partner State countries range between US\$ 223 and US\$270, being highest in Burundi and lowest in Kenya (Table 8). They are the same in Tanzania and Uganda.

There is a great variation in navigation charges among the countries, with Tanzania charging the highest and Burundi, the lowest charge. Passenger service charge/airport tax is also different EAC countries. Apart from Kenya, all the Partner States impose a security charge for both international and domestic passengers, these are also not the same for different countries, with that for Rwanda being lowest and half of that of Burundi and Uganda.



**Table 8: Airport Charges in EAC Airports and Netherlands (Amsterdam airport- for a aircraft MTOW 50,000Kgs)**

Country	Landing US\$)	Navigation charges US\$)	Cargo US\$)	Security US\$)	Lighting Land or take off night US\$)	Parkigng US\$)	Pasenger service charge (US\$)	Aerobridge US\$)
Burundi*	270	38	60	10	USD 200 per/flight	0.1/2hrs	37	-
Kenya	223	50	0.7 general 0.6/perisheble	-	Take off:1/5 of landing charge Landing 5/4 landing charges	15/day	40 international Kshs 500 domestic	75/ 3hrs
Rwanda (2012)	225	100	1	5 for int 1 doc	50% landing	9 /day	37 internatial 8 domestic	-
Tanzania (2012)	250	150	-	8	30% of the landing	5/ 6hrs	40 international Tshs 30,000 domestic	-
Uganda (2010)*	250	125	-	10 /Ugsh 2000	50% of landing	12/day	47.2 UgSh 3000	60/ first 3 hr, 60 /hr after
Amsterdam (2010)*- Boing 737/ day landing /take off	177	230	162	17 deptures 10 transition	Different rates for landing/taking off at night	8.3/day	19 international 8 transitional	-

Source: Various respective national regulations

\*Source: ICAO (2010)

Regulatory charges in EAC compare to those in Amsterdam, and indeed, there are more regulatory related charges in Amsterdam, including those related to environment such as noise, than there are in EAC Partner State countries.

In addition charges for using Flight Information Region (FIR) are also charged per flight: for Burundi, Rwanda and Tanzania, SADC VSAT charges of a flat rate of US\$ 9.60 are applicable. They are charged for all aircrafts operating between countries with VSAT communication links. The charge is billed and collected by IATA on behalf of the countries. Charges are charged once for each flight. Flat rate of USD 9.60 per FIR crossing. Kenya and Uganda use North- East Africa and Indian Ocean (NAFISAT) network, paying a flat rate of US\$ 10 per Flight Information Region (FIR) crossing in NAFISAT equipped States' airspace.

From the above analysis, domestic regulations on passenger airport taxes, security charges, landing, navigation, parking, type of the FIR VSAT communication system used, parking and landing and takeoff at night or lighting charges) affect aircraft charges, affecting air tariffs directly or indirectly.

### 4.3 Structure of passenger Tariffs per route group

Passenger ticket can be broken down into basic fares, government taxes, fuel surcharges and security charges. Passenger tariffs in EAC vary from one airline to another for the same route, the main difference being the basic fare charged by the different airlines as shown in Tables 9a- 9c. The fares shown below are exclusive of sales service which range between US\$ 15- 30 in the region (depending on the country).

**Table 9a: Passenger fare KIA-BJM-KIA**

Component / Airline	Airline A	Codeshare airline A&B
Basic fare (US\$)	773	705
Security (US\$)	8	8
Fuel surcharge (YR)	184	184
Airport Tax (US\$) country Tz	40	40
Airport Tax (US\$) country BJM	30	30
Total	1035	967
<i>Proportion of regulatory directly paid by passengers (%)</i>	7.5	8.0

Source: Field Consultations, July 2013

**Table 9b: KIA-EBB-KIA**

Component / Airline	Airline B	Codeshare airline A&B	Airline C (registered in Ug)
Basic fare (US\$)	480	445.8	498
Security (US\$) Tz	8	8	8
Security (US\$) Ug	10	10	10
Fuel surcharge (YR) US\$	110	184	130
Airport Tax (US\$) Tz	40	40	40
Airport Tax (US\$) Ug	47.2	47.2	47.2
<b>Total</b>	<b>696</b>	<b>735</b>	<b>733</b>
<b>Proportion of regulatory directly paid by passengers (%)</b>	<b>15.2</b>	<b>14.3</b>	<b>14.3</b>

Source: Field Consultations, July 2013

**Table 9c: KIA-KGL-KIA**

Component / Airline	Codeshare airline A & B	Airline D (registered in Rwanda)
Basic fare (US\$)	601	723
Security (US\$) Tz	8	8
Fuel surcharge (YR)US\$	134	134, 80
Airport Tax (US\$) TZ	40	40
Airport Tax (US\$) RW	37	37
<b>Total</b>	<b>820</b>	<b>1022</b>
<b>Proportion of regulatory directly paid by passengers (%)</b>	<b>10.4</b>	<b>8.3</b>

Source: Field Consultations, July 2013

On the same routes, fare differences exist being accounted for by airlines variables particularly the basic fares and airline surcharges (for fuel and insurance). From analysis presented above, regulatory charges paid directly by passengers range between 8 and 16 percent of the total passenger bill, depending on the route and the airline. Other regulatory charges are not billed directly to passengers.

## **5. Summary of findings, conclusions and recommendations**

This study has analyzed the air transport regulatory framework in EAC and assessed the effect of the regulatory framework on the competitiveness of the air transport sector. The study utilized available secondary data on air transport and consulted with stakeholders in air transport services sector in EAC.

### **5.1 Summary of key findings**

East African Community's market for air transport is large with estimated passenger air traffic between the eight international airports within the EAC being about 5 million persons per year. Cargo traffic is relatively low. Demand for passenger and cargo services has also been on the increase.

Air transport regulatory environment in EAC Partner State countries is influenced by the existing BASAs for respective countries and domestic air services regulations for air transport industry at the national level.

Although most BASAs in EAC provide substantial liberalization according to the YD decision, they provide a limited fifth freedom and limit operations of foreign airlines in the domestic market of a contracting party.

Factors constraining growth of air transport in EAC region include low cargo and passenger movements, pricing method and structure leading to high fares, and limited physical Aerodromes and related facilities. Other factors constraining the sector include uncompetitive domestic and BASAs regulatory regime, fiscal policies especially airport taxes, VAT and limited subsidization, high insurance premiums, management inefficiencies and perceived security and safety oversight limitations.

Domestic, transit and international passenger movements in EAC have increased by about 66 percent in the last three years, the largest increase of 124 percent taking place in transit followed by international and domestic movement at 55 and 30 percent respectively. Cargo and aircraft movements have likewise increased.

Comparative analysis of fares and rates for scheduled transport of passengers and freight/cargo shows that domestic and regional passenger fares in EAC countries are high, being several times higher than those of the Amsterdam-Kilimanjaro-Amsterdam route.

Different regulations at the national level lead to different passenger service charges, landing, navigation, security, other surcharges such as those related to lighting during landing or taking off at night. Airline related charges components (basic fare and surcharges) account for the largest proportion of fares, with regulatory charges paid directly by passengers accounting for about 15 percent of the passenger fares.

## **5.2 Conclusions**

Several conclusions on air transport industry arise from the above findings:

### **4.2.1 There a potential for the growth of the air transport market in EAC**

Although from global perspective the passenger and cargo market in EAC is smaller, there is a potential for its growth.

### **4.2.2 Physical facilities, regulatory regime and fiscal policies are main constraints**

Although several factors constrain the air transport sector, limited physical aerodromes and related facilities; uncompetitive domestic and BASAs regulatory regime and fiscal policies including limited subsidization of the sector are the main factors constraining growth of the sector.

### **4.2.3 Different regulatory charges at the national level leads to different tariffs in the same routes by different airlines**

Different regulations at the national level lead to different charges for airline registration, permits and certification; passenger services charges, landing, navigation, security, and other surcharges. This contributes to differences in tariffs charged in the same routes by different airlines.

### **4.2.4 BASAs are restrictive and reduce competition in EAC**

Through frequency and route limitations, limitations on airports of landing, cabotage and requirements on ownership and control of aircrafts, BASAs impact on availability of air travel and cargo services, and on the respective tariffs charged in EAC. These contribute to high cost of doing business. BASA arrangements limit the gains from international trade in air transport services sector including increased air transport and freight services availability, lower prices and quality that are expected with increased competition as a result of liberalization.

#### **4.2.5 Domestic and regional passenger tariffs in EAC very high**

High tariffs contribute to less affordability of air travel services and reduce attractiveness of air transport services and reduce the demand for air transport services.

#### **4.2.6 Airline costs are the main causes of high tariffs in EAC**

Largest components of passenger fares were, the basic fares and airline surcharges, the two being determined by regulatory fees airlines have to pay, airline fixed and operational costs of the airlines and airline surcharges.

### **5.3 Recommendations for an enhanced accessibility and affordability**

Several recommendations to enhance accessibility and affordability of the air transport sector in the EAC include.

#### **5.3.1 Improve air transport physical infrastructure**

Improving physical facilities in major airports and various aerodromes is necessary for improvement of the capacity and quality of the air transport infrastructure. This will contribute to enhanced physical accessibility. Governments in EAC Partner State countries need to increase investments for air transport infrastructure upgrading.

#### **5.3.2 Harmonization of regulatory fees and charges in the region**

EAC countries need to harmonize regulatory fees and charges at the national level. This will contribute to a level playing field and will enhance competition for the air operators in the region.

#### **4.3.3. Consider providing national treatment to EAC national air operators, passengers and cargo in all EAC countries**

In the spirit of common market, departures to EAC countries and passengers from EAC Partner State countries should be considered as domestic and therefore attract charges applicable to domestic parties. This will contribute to lower passenger and cargo tariffs. The current practice of treating other EAC countries as 'foreign' only contributes to high regional costs.

#### **4.3.4 Liberalization of air transport services in EAC, beyond the current regulatory provisions**

The current efforts to liberalize air transport services will lead to granting of first, second, third, fourth and fifth freedoms in the Community, with granting of more rights being left to the discretion of parties. A more meaningful liberalization will need to eliminate ‘cabotage rights’. This will lead to increased supply of air transport services as airlines seek to supply services in routes and destinations of business interest to them, and therefore to an increased physical accessibility of air transport services.

Stakeholders consulted during this study recommended liberalization of air transport services in EAC including in the domestic markets.

#### **4.3.5 Promotion of low cost carriers to reduce high tariffs in the region**

Promotion of low cost air carriers in both domestic and regional routes and promotion of competition among the airline industry will lead to lower passenger tariffs and increased affordability of air transport services. Stakeholders in air transport industry consider this as of priority.

#### **4.4.6 Implement competition policy and regulatory regime**

Stakeholders consulted during this study recommended an urgent need to implement and enforce a competition regime. This is necessary for a level playing air transport services, necessary for the air transport sector growth.

#### **4.4.7 Eliminate BASAs and embrace an EAC air services agreement (EAC ASA)**

This is in line with the EAC Common Market. The current regulatory process seeks to liberalize the air transport services. Instead of different BASAs between EAC Partner State countries, the region should be moving towards a single air services agreement for the region (EAC ASA). Such an agreement would therefore seek to provide Most Favoured Nations (MFN) and National Treatments (NT) for all EAC Partner State countries’ operators and passengers.

#### **4.4.8 Fiscal policies for growth of air transport industry**

Global key players in airline industry are highly subsidized by relevant governments. Stakeholders consulted indicated that for a more vibrant EAC air transport industry,

respective governments in EAC Partner States need to subsidize domestic airlines to enable them compete in an otherwise globally highly subsidized industry.

#### **4.4.9 Governments need to prioritize air transport sector**

Stakeholders in the air transport industry argue that the sector is an important economic service's sector, but does not receive such recognition in government planning. Governments in EAC therefore need to give the air transport sector more priority.

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## 6. Annexure

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