



THE TRANSPORT, WORKS AND SUPPLY COMMITTEE

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START

ABOUT PMRC

PMRC is a public policy think tank with a mission to 'Unlock Zambia's Potential'

■ PMRC STATED AIM

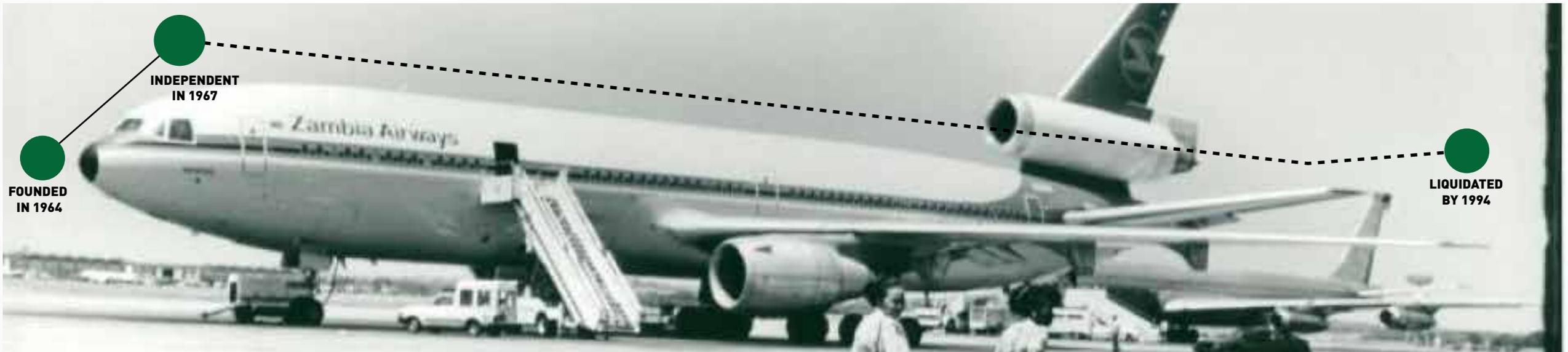
- To promote public understanding through research and education
- To be a source of quality data and encourage debate on social and economic policy issues
- To support government machinery in recommending policy and procedures to ensure effective delivery of national agenda



To deliver its mandate, PMRC works with, and leverages from the programmatic, information, communication and outreach networks of various institutions and organisations. These include governmental, civil society and citizen groups. This approach of collaboration has enhanced PMRC's relevance to national development through awareness of public policy.

INTRODUCTION

POLICY MONITORING AND RESEARCH CENTRE



- Zambia Airways was founded in 1964 as a subsidiary of Central African Airways, which later on became independent in 1967 through an act of parliament.
- On the **4th of December 1994, Zambia Airways was liquidated** due to its inability to meet its obligations.
- The airline had a total **debt of 29 million dollars** which resulted in the selling of the airline's property in London, New York, Tokyo, Nairobi, Johannesburg, Dar-es-Salaam, Rome, Frankfurt, Ndeke House and many other local properties in the towns which the airline operated.
- **Financial Mismanagement and poor corporate governance was to blame** for the downfall of the airline (It was not treated as a separate entity).

INTRODUCTION CONT.

POLICY MONITORING AND RESEARCH CENTRE



- Government also received pressure from the International Monetary Fund (IMF) to sell or privatize loss making parastatals. The liquidation of the airline led to the **unemployment of 2000 people**.
- Ethiopian Airlines (ranked by the International Air Transport Association **(IATA) as the largest airline in Africa** by revenue and profit) had announced that it has finalized shareholders' agreement with the Zambian government for the re-launch of **Zambia Airways which is scheduled for the first quarter of 2019**
- The Zambian Government will be the majority shareholder with 55% and Ethiopian will have 45%. With an initial investment of 30 million dollars.
- Ethiopian Airlines operates and manages the re-launched Malawi Airlines through a deal signed in 2013. It also has a deal with ASKY, a West African airline. The airline had a total **revenue of 2.43 billion dollars during the 2015- 2016** business years and had **projected a total revenue of 10 billion dollars by the year 2025**



THE POLICY AND LEGAL FRAMEWORK GOVERNING THE AVIATION INDUSTRY



1. International Civil Aviation Organisation (ICAO)
2. The International Air Transport Association (IATA)
3. Chicago Convention of 1944
4. The aim of SADC Aviation Safety Organisation (SASO),
5. Ministry of Transport and Communications
6. The Civil Aviation Authority Act
7. The Civil Aviation Act, 2016
8. National Transport policy (to be revised)
9. The Civil Aviation Authority
10. Zambia air services training institute
11. National Airports Corporation

THE ANTICIPATED IMPACT OF THE NATIONAL AIRLINE ON THE NATIONAL ECONOMY AND THE INDUSTRY



- **Increase in air service levels,** connectivity, and increased route competition resulting in lower fares. The re-launching of the Zambian Airline will promote rivalry amongst competitors. This intensifies the bargaining power of consumers leading to lower price fares.

- **Employment opportunity for Zambians.** The airline business provided numerous jobs both direct and indirect. Direct jobs are jobs within the industry itself such as Pilot and cabin crew members. Indirect jobs include those in suppliers to the air transport industry.

For example, aviation fuel suppliers; construction companies that build airport facilities; suppliers of sub-components used in aircraft; manufacturers of goods sold in airport retail outlets; and a wide variety of activities in the business services sector.

MERITS

POLICY MONITORING AND RESEARCH CENTRE



- There is an opportunity for the Kenneth Kaunda airport to become a **regional transport hub**, its only logical that Zambia should tap into this venture, considering the **360 million dollars investment** that has been put into developing the infrastructure of the airport.

- The airline will **facilitate the flow of investment, trade and tourism**, which will contribute to the socio-economic growth of the country and the region. This would be very critical at such a time that **Africa is entering into the Continental Free trade area agreement**. Movement of goods and services across the continent will increase and this presents an opportunity.

MERITS

POLICY MONITORING AND RESEARCH CENTRE

NATIONAL PRIDE



**ZAMBIA
AIRWAYS**

- A national carrier reflects both the importance (flag carrier) and perceived importance of a nation, having a national airline is a source of pride in the world for the citizens of the country where the airline comes from.

THE ANTICIPATED IMPACT OF THE NATIONAL AIRLINE ON THE NATIONAL ECONOMY AND THE INDUSTRY

DEMERITS



- The airline can make losses just like Malawi, which was re-launched. The business model that was floated during the tender indicated that the airline would be making profits by the second year, but the reality on the ground has been different as the airline has struggled to gain the market share that is needed to make profits. The projected period for the **Zambian Airways to breakeven is three years which is ambitious and may not be the case come 2022.**
- The International Air Transport Association (IATA) which is a trade association of the world's airlines projected that Africa's airlines are expected to make a combined loss of \$100 million in 2018. Currently all African national airlines apart from Ethiopian Airlines are making losses, which may be the case for Zambia come 2019.

DEMERITS



- Considering the country's **external debt of \$9.5 billion and domestic debt of K54.6 million**, the investment of **\$30 million is a gamble** and is money that could have been invested in other sectors such as **education and health**, whose budget allocation is below international standards.

US\$9.5B

EXTERNAL DEBT

US\$54.6M

DOMESTIC DEBT

- The Re- launch of the airline poses a threat to local airlines such as Proflight Air Services, Royal Air Charters and Mahogany Air. When a new firm enters the market, prices of its commodity are reduced compared to competitor to attract customers which make the prices of other firm uncompetitive, thereby losing customers.

DEMERITS



- **Potential abuse by staff members and Government Officials** as was the case before the airline ceased operations in 1994.
- Governments face **numerous pressures on the allocation of limited resources** (health, education whose percentage of the budget allocation is below international standards).
- Growth in airline capacity also means **more environmental damage—carbon emission**. Old technology aircraft do, relatively, more damage to the environment than new technology aircraft.

MEASURES INCLUDING INFRASTRUCTURE, FOR THE SMOOTH OPERATION OF THE NATIONAL AIRLINE



- The Seventh National Development Plan (7NDP) highlights Government's intention to develop the country's aviation infrastructure and operations through the **construction and upgrading of airport infrastructure** to provide modern equipment and facilities which will enable the country to handle higher volumes of traffic, both passengers and cargo.
- The plan also makes mention of the need to acquire **national aircrafts to serve domestic, regional and inter-continental routes** as well as **cargo planes that will assist in exporting agricultural produce** to markets in the region and beyond.
- Zambia has a total of four international airports; five secondary airfields and five airstrips serving the international and domestic flights.

MEASURES INCLUDING INFRASTRUCTURE, FOR THE SMOOTH OPERATION OF THE NATIONAL AIRLINE CONT.



- The **Kenneth Kaunda International Airport is Zambia's main airport connecting the country with the rest of the world.** This is complimented by three other airports at Ndola, Livingstone and Mfuwe, as well as secondary airfields at Chipata, Kitwe, Kasama, Mongu, Solwezi and Mansa.

- Government has embarked on a **programme to improve the infrastructure at all the international airports.** This is being done in collaboration with private sector participation. The developments include the runways, terminals and auxiliary facilities in and around the airports such as hotels, shopping malls, Conference facilities etc.

MEASURES INCLUDING INFRASTRUCTURE, FOR THE SMOOTH OPERATION OF THE NATIONAL AIRLINE **CONT..**



- Kenneth Kaunda International Airport in Lusaka, Zambia, is undergoing a US\$360 million expansion project that will see passenger-handling capacity increasing to six million from the current two million annually.



US\$360
MILLION EXPANSION PROJECT

- There have been reports that planes are about to be delivered that will be used in the **revamped Airline.** more details are still needed on this aspect.

THE MEASURES PUT IN PLACE FOR THE SUSTAINABILITY OF THE NATIONAL AIRLINE



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- Government had assured the public that there will be no political interference within the running of the national airline. The Zambian airline has adopted the model used by the Ethiopian Airline where the airline is considered as a separate entity which is **managed without government's interference**
 - The revamping of the Zambian Airline is enshrined within the Seven National development plan. As a way of improving the aviation industry which has a multiplier effect on other industries, the 7NDP highlights various programmes aimed improving the aviation industry and the establishment of the National Airline, to this effect the 7NDP Implementation plan provides a guideline in which projects will be implemented.
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THE **TRAINING AND SKILLS DEVELOPMENT PROGRAMMES** AVAILABLE TO ENHANCE THE OPERATION OF THE AVIATION SUB SECTOR

- The Zambia Air Services Training Institute (ZASTI) is **the only fully fledged aviation training institution in Zambia**. It offers a variety of programmes in the aviation sector and related industries. The institution promptly updates its programmes as dedicated by technological trends and changes and also as may be directed by relevant authorities.
 - Currently **Zambia Air Services Training Institute** is well positioned to provide **specialised training in Aeronautical Electronics Engineering (AEE), Aircraft Maintenance Engineering (AME), Systems Engineering “R” and “X” (Avionics), Air Traffic Management (ATM), Flying, Aviation Security, Meteorology, Fire Fighting, Computer Systems Engineering** and other related programmes.
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THE TRAINING AND SKILLS DEVELOPMENT PROGRAMMES AVAILABLE TO ENHANCE THE OPERATION OF THE AVIATION SUB SECTOR **CONT..**

- There are various institutes in Zambia that **offer training and skills development programmes** within the aviation sector. One of the Government's body mandated to provide skills training is the **Zambia Air Force (ZAF)**.
 - **Aero Precision College offers professional aviation training and pilot licensing.** Aero Precision College has bases at Kenneth Kaunda International Airport and in the Lusaka Central Business District. The training program covers both flying and aviation theory with courses in aviation offered throughout the year.
 - One other way of ensuring the availability of training and skills development programmes within the aviation sectors through **out sourcing**. One of the potential institute which government can consider outsourcing is the Active Aviation Training Institute.
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THE ROLE OF THE PRIVATE SECTOR IN THE OPERATION AND MANAGEMENT OF THE NATIONAL AIRLINE



- 1. The Private sector, if involved,** can play a critical role in the national airline
- 2. Lessons can be drawn from the Ethiopian Airlines model** where the Private sector has taken lead and thus running a profitable business model with no Government interference
- 3. Lessons should be learnt from the defunct Zambia Airways** that was influenced by Government interference.. Private sector brings professionalism and business experience to the airline
- 4. A challenge** further exists with the current Proflight and Mahogany Airlines which may be crowded out
- 5. The Private sector, has the expertise,** can share the cost and will provide competitive business model to ensure the airline is sustained and is profitable in this market.

THE ANTICIPATED CHALLENGES, IF ANY THAT MAY ARISE IN THE OPERATIONS OF THE NATIONAL AIRLINE



- Slowing Down of the Global Economy: Growth in airline business is linked with the growth of global economy. When it slows down, so does the airline business.
- The country recently adapted an **“open sky policy”** and is currently promoting the establishment of an air cargo hub for the Southern African region. Open Skies is an international policy concept that calls for the liberalization of the rules and regulations of the international aviation industry—especially commercial aviation—in order to create a free-market environment for the airline industry. This policy poses a threat to the sustainability of the airline as it will bring rivalry among competitors which may increase the bargaining power of customers, thereby, reducing profits for the airline.

THE ANTICIPATED CHALLENGES, IF ANY THAT MAY ARISE IN THE OPERATIONS OF THE NATIONAL AIRLINE CONT..



- The re-launched **airline faces a challenge of political interference**, many national airlines have been said to fail because of political interference in their management such as the use of the airline to transport government official at subsidized rates or no cost at all during **elections for campaigns and personal businesses** and the **employment of unqualified party carders into important position in the management of the airline.**
- The reported jets to be used are too big to be used for local travel in Zambia for the first year before embarking on international travel. This entails that the jets would require more fuel than ordinary local jets. Owing to the fact that **Jet fuel is more expensive in Zambia** as compared to other neighbouring countries, the **expensive cost of fuel** will be of a challenge to operations of the airline.

KEY RECOMMENDATIONS ON THE WAY FORWARD



- Financing of the airline may be a challenge in view of the Budget deficit and this would call for **external sourcing of financing to fund the airlines operations**
- In view of the current debt servicing, other national priorities, coupled with austerity measures, it may be in the best economic interest to delay the National Airline launch for now until the economy is on a process of recovery.
- If Government goes ahead, then definitely **Private sector should be engaged to pioneer the Business operations**, as is the case with Ethiopia
- There should be **very clear terms of reference between Zambia and Ethiopia Airlines** so as to ensure that **profits are shared equally and that Zambians benefit**

KEY RECOMMENDATIONS ON THE WAY FORWARD CONT.



- We need a **clear sustainability framework** if the airline is to be a success
- Overall, we should **learn from the errors of the defunct Zambian airways**, which have been documented, and ensure **to do things differently**
- We need to conduct a **thorough study of the African air industry and develop counter strategies** that will be able to respond to the new trends of what it takes to run a successful airline in Africa
- We **must learn lessons** from **South African, Kenyan, Rwanda and Ethiopian Airlines** and learn lessons of private sector involvement and airline management

THANK YOU

Unlocking Zambia's Potential

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