

A SITUATION ANALYSIS OF THE AIR TRANSPORT SECTOR IN UGANDA

Prepared by

Samuel K. Kayabwe
Makerere Institute of Social Research
Makerere University,
P.O.Box 16022,
Kampala, Uganda.
Tel: 256-41-554582, 532830/7-9
Fax: 256-41-532821
email: misrlib@imul.com

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(Samuel K. Kayabwe¹)

This paper, first of all, gives an account (and analysis) of the air transport sector by looking at the trend of traffic growth, both in cargo and passenger, since 1991 to-date; examines the status of the ancillary services and that of the national flag carrier (Uganda Airlines); and analyses the constraints and opportunities (remedial measures) for sectoral improvement. Secondly, the paper addresses the regulatory environment both in principal and in reality as far the Ugandan air transport sector is concerned. Thirdly, issues of regional and domestic market access barriers are addressed, followed (finally) by the lessons learnt.

Introduction

Air transport in Uganda plays an increasingly important role in the import-export trade. As a land locked country, Uganda gains a lot from the civil aviation industry for economic and political survival since it guarantees access to the outside world. Of prime importance is the crucial role the sector plays in the promotion and sustenance of particularly high value, perishable goods like horticultural products and frozen fish. For instance, last year (1998) fish exports accounted for 6550 tonnes representing 56% of the total exports followed by fresh produce at 24%.

The air transport sector in Uganda, in conformity with the International Aviation Industry, has gone through a period of adjustment and realignment as a result of the economic pressure and the spreading worldwide trend towards *lesser* government intervention and control. Thus, in pursuit of this liberalisation trend, the Uganda Government has undertaken several measures including, among others,

Establishment of an autonomous Civil Aviation Authority (CAA). Considering the importance of the air transport industry, the government established, by statute, an autonomous CAA in 1991 to develop and promote safe, secure, regular and efficient air transport services in the country. The CAA is mandated with both advisory and regulatory roles.

Privatisation (still in progress) of the national flag carrier (Uganda Airlines Corporation).

2. Air Transport Flows and Growth

Changes in world production, trade and investment on the demand side, and technological and pricing factors on the supply side have been and will continue to be responsible for the remarkable growth of air traffic. The shape and size of air transport systems will also be affected by governmental decisions, notably those determining the type and extent of economic regulation of airlines (UNCTAD, April 1999).

2.1 Overall Traffic Growth

Since the establishment of CAA, government has adopted liberal aviation policies under which the air transport has been restructured from the previously stagnant state to a dynamic one. This has resulted into

¹ Mr. Kayabwe is Development Economist by training and a researcher by profession working with the Institute of Social Research, Makerere University, Kampala-Uganda.

more international carriers operating in and out of the country --Scheduled operators² increased from eight in 1991 to 13 in 1998 (table 1), while many of the existing ones increased frequency. Indeed, air transport is one sector that has undergone massive rehabilitation, and has continued to be financially and efficiently viable with cargo recording an average growth rate of 46.6% per annum since 1991, rising from 6,580 to 25,000 metric tonnes between 1991 and 1997 respectively. International passenger traffic has also increased from 118,527 in 1991 to 320,000 in 1997 at an average growth rate of 28.3% per annum. Correspondingly, aircraft movement has grown from 5,615 in 1991 to 14,800 in 1997 and to 17,038 in 1998. Despite the foregoing, Uganda Airlines (national flag carrier) has maintained a static position sharing only about 33% of both incoming and outbound passenger traffic.

On the other hand, the boost in international and domestic tourism (whose growth has averaged 18% per annum since 1993 and contributing about 60% to service exports in 1998) and NGO activities upcountry has tremendously enhanced the domestic passenger traffic that has almost grown at five-fold from 2,735 in 1991 to 16,169 in 1998. This represents an average growth rate of 37.1% per annum since 1991.

Overall, Entebbe International Airport registered a growth rate of 70% in 1997/98, reported to be the highest volume of business ever undertaken in the last ten years. It was reported that CAA realised about Ushs5.8b in 1997/98 fiscal year from Ushs3.7b realised in 1996/97. This was from air navigation charges, landing and parking fees, and ground handling activities.

2.2 Regional (COMESA) Traffic Growth

Other than the passenger traffic, Uganda's cargo traffic growth (resulting from exports) by air transport within the COMESA trading block is very insignificant compared to cargo traffic growth emanating from exports to the European Union. This is particularly due to similarities in the perishable agricultural products grown in Uganda and other COMESA trading patterns—which means that the demand for Uganda's perishables by COMESA countries is very low not warranting the high costs involved in air transport. In fact it is important to appreciate the fact that supply of regional air transport, and therefore the probability for opening new routes (traffic growth), is determined by the market demand (Volume of cargo and passengers) forces for such a service.

Table 1: List of Scheduled/Non-Scheduled Operators

Operator	Country of Origin	Status	Frequencies per Week
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² Air transport flows can be split into 3 market segments namely, scheduled (regular), unscheduled (chartered) and cargo freighters. And by definition, trade in air transport services (ATS) encompasses cargo, passenger and mail services.

1. Air France [Freighter]	France	Scheduled	2
2. Air Rwanda	Rwanda	Scheduled	3
3. Air Tanzania	Tanzania	Scheduled	2
4. Air Zaire/TMK	Zaire/TMK	Scheduled	1
5. Alliance Air	South Africa	Scheduled	3
6. British Airways	UK	Scheduled	3
7. Egypt Air	Egypt	Scheduled	1
8. Ethiopian Airlines	Ethiopia	Scheduled	3
9. Gulf Air	UAE	Scheduled	3
10. Inter Air		Scheduled	1
11. Iran Air	Iran	Scheduled	2
12. Kenya Airways	Kenya	Scheduled	7
13. Sabena	Belgium	Scheduled	2
14. Uganda Airlines	Uganda	Scheduled	13 [Nairobi] 2 [Dubai] 2 [Johannesburg] 1 [Harare] 3 [Kigali] 1 [Lusaka]
15. Air Alexander [Freighter]		Non-scheduled	Not Applicable
16. Air East Africa [Freighter]	 -do-	-do-
17. Air Serv [Passenger/Cargo]		-do-	-do-
18. Commodity Export International [Passenger/Cargo]		-do-	-do-
19. Dairo Air Services [Freighter]		-do-	-do-
20. Eagle Aviation Services [Passenger/Cargo]		-do-	-do-
21. MAF [Passenger/Cargo]		-do-	-do-
22. Pelican Air Services [Passenger/Cargo]		-do-	-do-
23. Premier Safari [Passenger/Cargo]		-do-	-do-
24. Royal Air Services [Passenger/Cargo]		-do-	-do-
25. Take Air [Passenger/Cargo]		-do-	-do-
26. Trans Arabian [Passenger/Cargo]		-do-	-do-
27. Tropical [Passenger/Cargo]		-do-	-do-
28. Zel Air [Passenger/Cargo]		-do-	-do-

Source: Civil Aviation Authority & Uganda Airlines, Entebbe, 1999.

2.3 Uganda Airlines

i) Revenues and Expenses

In addition to use of arrival of tourists and cargo (sub-section 2.1), operating revenue and expenses of airlines can also be used as indicators of trend in ATS flows. Uganda Airlines, for example, has an average monthly operating expenses and revenue to the tune of 1.304 and 1.489 billion shillings³ respectively. This leaves the airline with an insignificant operating profit which, in real terms, is eaten away by an average monthly subsidy (if looked at from the expenditures side) to the tune of US \$700,000!. This government subsidy⁴, in place for the last two fiscal years, is used for clearing the International Air Transport Association (IATA) Bill which covers, among other things, lease charges, interline charges, handling charges, navigation, repairs, etc..

³ Conversion rate: US\$1.00 = Ushs1,450.

⁴ Payment of financial assistance packages (subsidies) by Governments to airlines that operate unprofitable routes is a normal phenomenon, but supposed to be shortlived as the airlines implement their restructuring plans. The Uganda case, however, has become chronic!

Airlines can maximise revenue and minimise operating expenses through the development of global networks or mergers (marketing alliances), sometimes involving cross-ownership arrangements which allow them to link “hubs” through practices such as code-sharing which constitutes a powerful instrument for carriers to maximise use of traffic rights. The pressure for the creation of global networks through hubs has been a recent characteristic of aviation industry beginning in the United States as a consequence of domestic liberalisation that took place in the late 1970’s (UNCTAD, April 1999).

ii) Way Forward

It has been reported by the press (New Vision, July 2, 1999) that Uganda Airlines Corporation (UAC) may join a group of over five international airlines flying routes worldwide if it is sold⁵ to South African Airways (SAA), following a recent Swissair buy-in of 20% share of SAA. Swissair is reportedly an alliance of reputable international airlines going from America to Asia. Members of Swissair alliance include Sabena, Austrian Airlines, TAP Air Portugal, and Delta Airlines (USA). Assuming the alliance between UAC and SAA takes off, it is envisaged that Uganda’s air transport sector will have more planes⁶ and more links⁷ (greater air service market access) to routes into Europe, America and Australia. Foreign ownership usually comes with greater know-how and experience, and developing countries have relied on that sort of privatisation in devising ways to provide for more international traffic at lower prices and better quality or else risk being fully excluded from the market (UNCTAD April 1999). Indeed, there are optimistic speculations among supporters of UAC/SAA alliance that bringing on board international airlines would consolidate Entebbe’s position as a potential regional air transport hub instead of Nairobi. However, Nairobi’s regional hub status was also recently strengthened by the Kenya Airways merger with Dutch KLM airline giving it European links (thereby undermining Entebbe?) and more air carriers than before.

2.4 Airport Rehabilitation and Refurbishment

Since the first impression of a country is made at the way passengers are handled at the airport, tremendous developments have taken place at Entebbe International Airport. These include, among others, i) The rehabilitation of the passenger terminal building; ii) Rehabilitation of the air side including the supply of new air navigation equipment (NAVAIDS) and communication systems; iii) Modernisation of weather capture systems; iv) Supply of modern rescue boats; v) Resurfacing of the taxiways and main runway, vi) Construction of a sewage treatment plant; and vii) Installation of a new standby power supply system at the airport.

In addition to the rehabilitation of Entebbe International Airport, the following aerodromes have been rehabilitated: Arua, Gulu, Moroto, Soroti, Kidepo, Kisoro, Kasese, Mbarara, Masindi and Pakuba.

Over the next five years, CAA has a plan to develop the following facilities to cater for increased traffic at Entebbe International Airport: i) Complete renovation of the Cargo Terminal Building at ware houses; ii) Modernisation of the baggage delivery system and Arrival Hall; iii) Construction of two air bridges; and iv) Acquisition of adjacent land for development of export processing zone. At the Old Airport, CAA in partnership with the private sector plans to develop the following facilities: i) A new cargo center; ii)

⁵ *Final touches for privatising 49% shares of UAC are making a very slow progress due to political complexities encountered in process—otherwise several airlines, including SAA, have expressed interest.*

⁶ *It is important to note that UAC fleet is composed of only one air carrier B737-500*

⁷ *Currently, UAC routes are limited to Nairobi, Harare, Lusaka, Johannesburg, Bujumbura, Kigali and Dubai(see table 1 for weekly frequencies).*

Aircraft maintenance hanger (construction work in progress); iii) A general aviation terminal; iv) Fuel storage and distribution services; v) In-flight catering center; vi) Airline support functions; and vii) Other new cold room storage facilities with modern roller-belts to move and load the cargo pallets onto the planes—The roller-belts will save and protect the cargo packaging from damage during its movement and will speed up the process of loading.

2.5 Ancillary Services

For efficiency in the provision of services, CAA has continued to contract most of its services to the private companies with specialised skills and financial resources to carry out non-core (non-aviation) functions and services. For instance,

- i) During 1996/97, the handling of cargo, aircraft and passenger was contracted to Dairo Air Services and Entebbe Handling Aviation Services (ENHAS). ENHAS uses the latest technology and some of the newly acquired machines include motorised passenger steps, passenger ramp bus, push-back tractors, utility high-loaders, cargo dollies, baggage carts, toilet trucks and of late, a cargo roller bed system and a modern US \$0.5m cold store with capacity to store 36 pallets at a go representing an average of 120 metric tonnes of fresh produce cargo. Overall, ENHAS handles 82 turn-round flights per week and, on average, five freighters a day --Monthly, the company handles about 600 metric tonnes of imports and 700 tonnes of exports.
- ii) Airport cleaning is now carried out by a local private company --Guardian Services Limited.
- iii) Duty Free complex is ran by private investors.
- iv) In-flight catering kitchen is managed by a joint venture between foreign investors from South Africa and local Ugandans.
- v) Airport car parking system was contracted to a private company.

Despite the foregoing measures to liberalise the ancillary services, the so-called privatisation of ground handling services turned out to be just a mere change of guards from Uganda Airlines Corporation (National flag carrier) monopoly to ENHAS private monopoly. The Ugandan-owned Dairo Air that had been licensed together with ENHAS was only⁸ permitted to handle its own cargo leaving handling of other aircraft to ENHAS. This has reportedly led to some inefficiency in service delivery and exploitative handling charges by ENHAS. For instance, it was reported that ENHAS was handling each flight at US \$1,100 (Ushs1.4m).

2.6 Overall Sectoral/Growth Constraints

High Freight Rates

There is a battle over **freight rates** according to information gathered from traders and Uganda Clearing and Forwarding Agents Association branch at Entebbe Airport. Freight rates (handling charges, storage charges and airline fares) are so high that some importers and clearing and forwarding firms have been driven out of business. A brief review and discussion of the freight rates with the business community revealed:

⁸ *Contrary to the liberal provisions identified by ICAO to govern commercial activities related to ground handling, air carriers operating in Uganda do not have a choice to perform their own ground handling services nor the option to designate a company among competing service providers.*

High Storage Charges. Importers are allowed only 72 hours free storage by ENHAS from the time their cargo arrives --This is a tremendous reduction from the earlier 21 days' grace period. After this time, storage charges of US \$0.05 per kilo on top of VAT 17% are levied.

Handling Charges on the total weight of the consignment are US \$0.2 per kilo on top of customs' taxes on items imported. Exporters, on the other hand, claimed that ENHAS charges an average air freight of US \$1.9 per kilogram of flowers which excludes local handling, no cold chain, no foreign handling and no transport to auction. Comparative figures for Kenya were quoted to be approximately US \$1.68 per kilogram of flowers including local handling, documentation, cold storage, foreign handling and transport to auction.

High Airline Fares. Finally, fares charged by airlines are not any better. From London to Entebbe it is 0.74 pounds per kilo; From Johannesburg to Entebbe (depending on the flight) it is 0.6 pounds and above per kilo; and from Dubai to Entebbe it is US \$1.78 per kilo.

Discussions held with CAA also confirmed the high freight rates reported by the business community (Table 2). Overall, CAA reported that Entebbe is more expensive than Nairobi by 63% and Dar-es-Salaam by 55%.

Table2. Comparative Charges for Entebbe, Nairobi and Dar-es-Salaam Airports in US Dollars

	Imports			Exports		
	Entebbe	Nairobi	Dar-es-Salaam	Entebbe	Nairobi	Dar-es-Salaam
Cargo handling charges per Kg.	0.2	0.02	0.03	0.07	0.02	0.01
Storage charges per Kg.	0.05	0.06	0.02	0.05	0.06	0.04

Source: Civil Aviation Authority, Entebbe Airport (July 1999)

Customs Values and Tariffs

The importers, exporters and clearing agents interviewed blamed Uganda Revenue Authority (URA) Customs Department for use of what they called “arbitrary” values from Duty Free catalogue shops all over the world to give values of imported goods and their invoice values instead of using the invoices issued by goods suppliers. This is allegedly due to the mistrust URA has over the declared invoices which are reportedly undervalued to minimise taxation. Furthermore, traders would like Government to scrap the use of Brussels Definition of Value (BDV), a system of valuation based on CIF, and replace it with a GATT system based on FOB as recommended by WTO⁹. Finally, but of paramount importance to minimisation

⁹ *Uganda is bound by international agreements signed in Marrakesh in 1994 under WTO, under which members were due to start implementing the GATT valuation of imports in 1995. However, Uganda not being ready to implement the new system, obtained respite for five years. At the time of writing this paper, 40 top managers of URA were undergoing an intensive TOT programme in GATT valuation with an overall objective to equip them with skills to train others so as to build internal capacity to implement the new system of valuation of imports.*

of operational costs, traders complained of unnecessary delays arising from URA custom officials at the airport working for just a few hours of the day-time when they are supposed to be on duty 24 hours!

Insufficient Cargo/Space Overbooking

In the immediate past, some airlines have complained that each exporter wants to ship his/her own cargo individually, and at times overbooking space which eventually is never used, making it expensive and cumbersome for the airlines—In Kenya exporters book space as a group which is convenient and cheap. In response to the risks of insufficient cargo, air carriers have reacted by reserving very limited space for Uganda exporters which turns out to be very expensive resulting into erosion of competitiveness.

Low Volume of Business

Despite the registered tremendous growth rate accounted for in section 2.1 above, this is just less than 20% utilisation of the installed capacity! --Runway installed capacity is 200,000 aircraft per annum, while Main Terminal Building installed capacity is 1,000,000 passengers per annum. Thus, there is still quite a lot of unexploited potential, a situation that calls for measures to increase business volume in order to repay the costs incurred in refurbishment of the capital intensive facility and also to maintain the very expensive asset base --As of now, CAA hardly recovers 50% of their costs!. Thus, Entebbe Airport is one of the majority of 1,119 airports listed by the International Civil Aviation Organisation (ICAO, 1996-1999) that operate at a loss.

2.7 Constraints' Remedial Measures

The Authority (CAA) observes the fact that airports worldwide are capital intensive facilities requiring concerted effort to develop. Thus, they have suggested (and pursued) the following measures to strengthen the facility:

Waiving landing fees for aircraft whose activities promote tourism, particularly internal, to encourage everybody to participate in seeing their country.

Removal of the hitherto troublesome Airport Fee (effective from August 1, 1999). This will no longer be the time consuming irritant it has been, as it will now be bundled together with the air ticket and will not be "felt". This fee has been a real irritant for the passengers whose only dollar notes happened to date earlier than 1990/10.

Downward revision of cargo handling charges (in progress). This has been another major cause for complaints. Uganda being a landlocked country has more to lose if the airport does not have a competitive edge especially as it increases its share of perishable agricultural exports as well as tourism. These need secure, efficient and cost effective air transport to compete favorably, without out-pricing itself (Uganda) out of the market, especially as the comparative figures show scale of operation to be unequal within the region. For instance, passengers passing through Entebbe in 1997 were only 326,265 compared to Nairobi's 2,297,024 and Dar-es-Salaam's 436,180, while cargo was respectively only 26,926 metric tonnes for Entebbe compared to 75,690 metric tonnes for Nairobi.

Encouragement of exporters to ship as groups instead of individuals so that freighters feel it is more profitable to take more cargo from Entebbe.. Exporters are also expected (and encouraged) to get used to

10 *It is only in Uganda where dollar notes dated before 1990 are not recognised as legal tender!—All neighbor countries recognise them.*

paying by the container, rather than by weight, for Entebbe Airport to stay in business competitively rather than freighting elsewhere.

Regulatory Environment

Air transport services of all kinds which are undertaken by airline companies take place in a common regulatory framework dating from the post-war years. Thus, it should be noted that although air transport services are exempted to a large extent from the GATS rules, they are nevertheless covered by some of the obligations in the GATT (WTO, 1998). This section, therefore, attempts to give a brief description of the ICAO regulatory regime governing aircraft repair and maintenance, computer reservation systems, and selling and marketing of air transport services, as compared to the Ugandan regulatory arrangements by CAA.

The regulation of international air transport services comprises both multilateral and bilateral arrangements involving Governments and airline companies. However, UNCTAD (April 1999) observes that this regulatory landscape of international air transport is changing very quickly, and at many levels at the same time, to meet the consistently increasing demand (market mechanisms) for air services around the world through more flexible approaches to regulation. For instance, alliances among airlines of different countries and their practice of code-sharing can allow carriers preferential access to behind-gateway feed traffic, and franchising can indirectly circumvent nationality clauses in bilateral arrangements. Overall, the evolution of both the bilateral and, more recently, the regional multilateral regimes has been in the direction of greater flexibility and liberalisation of state control over frequencies, capacity, prices, limitation of the number of designated carriers, etc. Indeed, global multilateral regulation has stayed away from market access, focusing on technical and safety aspects of international flights.

Bilateral Regulation

Under the bilateral air service agreements, decisions on market access for air carriers, pricing and quantity of services supplied are taken by two states in the exercise of sovereignty over their air space. Traditionally, such bilateral arrangements were based on reciprocity and included, but not limited to:

Predetermination of capacity. The control of capacity plays an essential part in maintaining the profitability of routes. However, direct regulation of capacity, over time, has tended to give way towards “free determination” (competition policy) —Open skies agreements in their pure form also assume a system of free determination.

Double approval of tariffs. Air transport has historically been a sector in which prices are fixed and managed administratively. As in the sphere of capacity, the use of competition policy instruments is becoming increasingly frequent and there has been a trend, which is still continuing, away from dual approval towards dual disapproval clauses, and the development of open skies agreements, like regional agreements and “single markets” also tends towards the suppression of tariff clauses.

Dual approval of routes to be served. In the strict sense, routes are traffic rights which are classified into 8 types of “freedoms” (see Annex 3) or authorised flights. The major development in terms of routes is the appearance of “open skies” agreements, under which the bilateral negotiation of specific routes disappears in favor of the potential opening of all routes when a single market for air transport is created, as in the European Union since April 1, 1997. WTO (1998) anticipates the same thing to happen under regional air transport agreements in South America and Caribbean.—Perhaps a similar situation will emerge when COMESA countries open up their skies.

Related commercial rights. Bilateral agreements also govern the commercial activities of companies, and ICAO identifies five major types of provisions in this context: i) The right to establish offices or personnel in the territory of another party; ii) The right of a designated company to sell transport services in the currency of the other party; iii) The right of a designated company to provide its own ground services in the territory of the other party, or to choose an agent to do so; iv) The existence and conditions applicable to computer reservations system (CRS); and v) The right to convert or transfer funds.

NOTE: I am still facing difficulties in accessing information pertaining to the bilateral air traffic arrangements Uganda enjoys with other countries.

Regional Multilateral Regulation

The regional regulatory initiatives aim at greater flexibility of rules which go beyond the existing international bilateral regulatory framework. They involve the adoption of regional regulation of air traffic, either complementing or superseding the bilateral structure. Regional air transport policy is part of the wider process of regional economic integration which implies close economic integration between member states.

Although COMESA has been in existence since 1993, there has not yet been any relaxation from regional “protective” bilateral to “inclusive” multilateral air traffic regulation—all countries in the region are still very protective particularly with regard to their own national airline carriers. However, at the time of writing this paper, a circular from the COMESA secretariat in Lusaka had been sent to member states notifying them of the need to meet and discuss the modalities for liberalisation of the skies which is reportedly supposed to take off by 31st October this year (1999). Whereas every body in the civil aviation industry in the country would love to see this liberalisation take off as scheduled, there are fears that small air carriers like Uganda Airlines will be totally competed out of business by big ones with better services and international connections unless this is preceded by Uganda Airlines getting allied to giant international air carriers—Afterall, even big airlines like American Airlines and British Airways continue merging simply to take a lion’s share in the international air traffic sector.

4. Market Access Barriers

Regional Barriers

For now, there don’t seem to be market access barriers in COMESA countries that may directly constrain the development of the intra air transport cargo service which, in any case, is still weak for reasons already elaborated in the paper. Otherwise for overall trade, COMESA countries have a preferential mutual arrangement whereby imports from member countries attract lower import duties (12%) than those from non-COMESA countries. However, this is not to say that all the COMESA countries have adopted the preferential import duties, nor attained the same tariff reduction levels. For instance, Tanzania has not yet implemented the COMESA rates, thus an import duty of 50% (instead of 12%) is levied on imports from the COMESA region in addition to the excise duty of 30% and a sales tax of 30% (COMESA/UNCTAD/WTO, 1995). As for progressive tariff reductions, as enshrined under WTO, out of the 21 COMESA countries, only 14 (including Uganda) countries have reduced tariffs by between 60 and 80%!

In addition to tariff barriers, there are several non tariff market access barriers including, among others:

Administrative (bureaucratic) barriers leading to un necessary delays in clearing goods at airports translating into loss of competitiveness;

Stipulation of import sources among COMESA countries, a practice which interferes with the notion of regional trade integration. At times it is pretty difficult to buy goods from COMESA countries because of the stipulation controls. Uganda, for example, though not very much related, has been accused of favoring privatisation of UAC to an airline (SAA) outside COMESA instead of Kenya Airways.

Differences in political ideologies whereby each COMESA country adopts more inward (nationalistic) than outward (regional) policies. Thus, landlocked countries (e.g. Burundi, Rwanda, Malawi, Zambia, Uganda etc.) have to depend quite a lot on the political climate and goodwill of the coastal neighbors for ease of

movement of transit cargo. It is partly for this reason that development of an efficient air transport sector is very critical for the import-export trade of landlocked countries.

Domestic Barriers

Largely, there are no major market access tariff barriers in Uganda as tariff reduction rates are in agreement with the action plan to achieve a COMESA free trading area by the close of October 31st 2000. With the process of IMF structural adjustment and economic reform at the national level in high progress, Uganda has removed exchange control restrictions; reduced tariff barriers to trade by 80%; reduced bureaucratic obstacles to doing business (including obstacles to cross-border investment and movement of factors of production); allowed interest rates to be set by the market; and implemented several other fiscal, financial and structural reforms.

Non-tariff barriers, though not many, basically include: i) Poor road infrastructure and ii) Erratic power (electricity) supply and high rates.

Lessons Learnt

Review of literature and analysis of key informants' views and opinions resulted in numerous issues for consideration under the COMESA integration if the concept of "free trade" (Zero tariff) planned for October 2000 is to be achieved to the best interest of all the 21 member states. Some of the key issues are: ***Awareness Uplifting***: One area of concern since consumers, business people, exporters and importers in the region are going to be affected directly or indirectly, is that they should be made fully aware of what this COMESA free trade area is all about, especially of what opportunities and challenges will accompany the merging of intra-COMESA markets. If enterprises in the production sector in particular are not fully prepared for these challenges and opportunities, the competition they face could knock them off their feet! In Uganda, for instance, there is still a high rate of lack of awareness among the business community—not well informed about the roles and functions of WTO!

Heterogeneity of Investment Laws: Lack of progress in reconciling the differences in the investment laws of member countries is another area of concern. Since the whole purpose of economic integration is to promote harmonious and balanced development, all issues that could adversely affect the unity of collective self-reliance should be dealt with expeditiously. The tax regimes and regulations designed to attract foreign investment— tax concessions, patent laws, labor laws, and foreign exchange laws— must be harmonious and arrangements made for future allocation of industries among the member countries prior to liberalising intra-COMESA trade fully. Otherwise, there is every likelihood that multinationals concentrated in some member countries could expand their domination to the rest of the region by getting more concessions and incentives for expansion and putting in new plans to serve the regional market from these countries. The multinationals coming in to the free trade area could again end up as the main beneficiaries as they can put a large plant in one of the countries and serve the entire region .

Equity and Compensation Issues: This is another priority area to be dealt with prior to October 31, 2000. Equitable and compensation methods for countries that stand to lose tariff revenue or suffer damage to some of their infant industries have to be considered. This could be one of the major worries of some member countries and most probably the reason why there are tremendous inconsistencies in tariff reduction levels contrary to what had been agreed on.

Transport and Communication Costs: These being components of regional trade costs, should be given utmost attention at least by those member states with a common border. Maintenance of roads, railways, telecommunication lines, airports and so on, should be given utmost attention if a product from a neighbor in COMESA is to be less expensive than the same product from another continent.

Equitable Distribution of Partnership Benefits: The "core" countries in the grouping —those countries with a relatively stronger, stable economic base—should be prepared to share the benefits of partnership. It

is important to take note of the heterogeneity of different levels of economic development among the COMESA states. The economically more powerful states should be willing and able to sacrifice some of their advantages by paying out some of their benefits to the relatively weaker partners for the sake of a successful integration process—otherwise exploitation of the common market arrangements by the stronger states will lead to bitter economic and political rivalry.

Inward Looking Syndrome. The practice of COMESA countries being more inward than outward looking undermines the process, and the accruing benefits, of regional integration as a competitive trading group in goods and services, including air transport, in international trade. For example, Kenya, Tanzania and Uganda continue flying independent scheduled B737's to Dubai at almost half capacity instead of flying one joint B747 at full capacity and at minimal operational costs!

Overall Recommendation

African countries should suppress/harmonise their nationalistic ideologies for outward-oriented regional integration as groupings in the global economy in order to be able to negotiate with other large trading blocks like NAFTA and EU involved in WTO—Most COMESA countries are individually too small to achieve economies of scale in the production and marketing of their products and services and need to work together as a region.

Annex 1: Documents Reviewed

Action Plan to Achieve a COMESA Free Trade Area (COM/CM/V/3)—A *COMESA publication*.

Air Transport Services: The Positive Agenda for Developing Countries (TD/B/COM.1/EM.9/2, April 16, 1999)— *A report by UNCTAD Secretariat*.

Air Transport Services (S/C/W/59, November 5, 1998) ---*A Background Note By the Secretariat, WTO Council for Trade in Services*.

Business News in Uganda news papers

COMESA - A Profile— *A publication based on COMESA Nairobi Summit May 1999*.

COMESA Trade Information Network (TINET) 1995—*Survey Reports on COMESA countries by COMESA/UNCTAD/WTO*.

Evaluation of the Final Results of the Uruguay Round by African Countries (RAF/87/157, April 28, 1994)—*A Report by UNDP/UNCTAD* .

The Uruguay Round and Commonwealth Developing Countries: An Assessment (Final Draft, Feb 1995)---*A report to the Commonwealth Secretariat by Professors. D. Greenaway and C. Milner, University of Nottingham, UK*.

The Export Bulletin (Vol. 8 No.1, January/April 1999)—*A publication Uganda Export Promotion Board*.

The World of Civil Aviation 1996-1999 (Circular 271-AT/112)--- *A publication by ICAO*.

Annex 2: Organisations/Institutions Consulted

Civil Aviation Authority (CAA), Entebbe Airport, Uganda
Entebbe Handling Services (ENHAS)
Uganda Export Promotion Board
Uganda Clearing and Forwarding Association
Uganda Airlines
Ministry of Tourism, Trade and Industry
Uganda Travel Bureau (UTB)

Annex 3: Aviation Rights (Freedoms)

1st freedom: The right of an airline of one country to fly over the territory of another country;

2nd freedom: The right of an airline of one country to land in another country for non-traffic reasons, such as maintenance and refueling;

3rd freedom: The right of an airline of one country to carry traffic from its country of registration to another;

4th freedom: The right of an airline of another country to carry traffic from another country to its own country of registration;

5th freedom: The right of an airline of one country to carry traffic between two countries outside its own country of registration as long as the flight originates or terminates in its own country of registration;

6th freedom: The right of an airline of one country to carry traffic between two foreign countries via its own country of registration (this is a combination of third and fourth freedoms);

7th freedom: The right of an airline to operate stand-alone services entirely outside the territory of its own home state, to carry traffic between two foreign countries;

8th freedom: The right of an airline to carry traffic between two points within the territory of a foreign state (to obtain this freedom remains exceptional)

Source: Derived from publication on "Air Transport Services": S/C/W/59 of November 5, 1998, by WTO Council for Trade in Services