

DIRECTORATE OF ECONOMIC REGULATION AIR TRANSPORT MONTHLY MONITOR: MARCH 2021 [ATMM/03/2021]

Air Transport Monthly Monitor [ATMM] is a monthly digest of air transport sub-sector meant to share events that happened during the month in question both locally and globally. With information stakeholders and the general public are able to understand what is happening in the aviation industry and take appropriate action where necessary.

KQ reports Ksh.36.2B loss, the largest in Kenya's corporate history:

Kenya Airways (KQ) has reported a near three times loss expansion to Ksh.36.2 billion in the year ended December 31, 2020.

This is the largest loss by a corporate in Kenya's history. The loss accelerated from Ksh.13 billion a year earlier is largely attributable to the collapse of its operations across 2020 on the back of COVID-19 related disruptions.

KQ revenues in the year for instance slumped by 59 percent to just Ksh.52.8 billion from a higher Ksh128.3 billion in 2019.

This is as passenger revenues sunk by Ksh. 69.9 billion in the period following the grounding of flights between April and August last year.

The total number of passenger carried in the period for instance fell to 1.8 million individuals in contrast to 5.2 million in the preceding year.

Other hits to revenues included Ksh.864 million in handling services and a Ksh.5.1 billion wipe out in other revenues. Kenya Airways nevertheless trimmed its overall costs by about 38.5 per cent to Ksh.89.4 billion from Ksh.141.3 billion in 2019 but the cut was not significant enough to offset the dip in revenues.

The cost cuts included Ksh.22.6 billion in savings from fuel, Ksh.27.4 billion in navigation and landing

fees related costs and Ksh.3.4 billion in employee cost savings from the reduction of salaries and company workforce restructures.

Fleet costs nevertheless surged by Ksh.3.3 billion lifting impairment costs in the period to Ksh.7 billion.

"2020 was the worst year for aviation. We however did well and kept going once the grounding of flights ceased," stated Kenya Airways Chairman Michael Joseph.

"The difference between COVID-19 and other crises is that we were completely grounded," added KQ Chief Executive Officer Allan Kilavuka.

Despite the gradual return to flights, Michael Joseph predicts a slow and painful recovery of KQ operations to pre-COVID-19 levels as the company sees a distant rebound in the year 2024.

"It is unfortunate that we do not see a recovery to pre-pandemic levels this year or in the next," he stated.

The management of Kenya Airways nevertheless remains optimistic of rallying from the slack supported closely by government alongside its own initiative to derive new partnerships and clean up legacy issues such as costs and contracts.

"We would have liked to deliver a much better result today but we are taking the right steps on cash-conservation and de-risking. Without government support, it will be extremely difficult to survive. We are however doing our best to keep the airline going," added Kilavuka.

KQ is further betting on leveraging new income streams such as cargo having recently re-purposed

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part of its Boeing 787 carrier to a fully fledged freight carrier.

In the long-term, KQ's continuity is pegged on the ongoing nationalization process from which its operations are set to be merged to those of the Kenya Airports Authority (KAA).

“Nationalization will give us strength and ability to compete on an equal playing field with peers especially Middle Eastern Carriers. All of our biggest competitors have the same structure,” said Michael Joseph.

KQ says it has meanwhile received Ksh.6 billion in support from the National Treasury as of the end of 2020 with the money being appropriated through the first 2020-21 Supplementary Budget.

Moreover KQ says it has saved an estimated Ksh.6.6 billion in loan moratoriums by its debt holders.

The carrier is targeting tighter cash-controls to survive the current crisis.

ATCL suspends the launch of Dar - Guangzhou (China) flights:

The national carrier Air Tanzania has suspended what was supposed to be its maiden flight to Guangzhou citing Covid-19 control measures put in place by the Guangdong local authority.

“Air Tanzania Company Limited would like to inform the public that due to the current pressure and capacity limit of Guangdong Local Government on COVID 19 control and prevention for Inbound Flights, the scheduled Air Tanzania Maiden Flight from Dar-es-Salaam to Guangzhou that was

supposed to happen on 21st March 2021 has been suspended,” the company posted.

It was not clear whether there were new containment measures in Guangzhou but the company said new dates for the long awaited maiden flight would be announced later.

“Air Tanzania apologizes for any inconveniences caused,” reads the statement.

The carrier had announced late last month that it would embark on long haul flights to China using one of its latest equipments, the Dreamliner.

Uganda Airlines secures morning landing slot at London Heathrow:

Uganda Airlines has secured an early morning landing slot at London Heathrow Airport. The flight from Entebbe will land in Heathrow at 06:00 AM, a prime time for business travelers and considered one of the most coveted slots at the airport. Uganda will fly its brand new Airbus A330neo on the route.

The slot came into effect from the start of the summer season on March 28th, but the airline is yet to receive certification for its new Airbus A330-800neo. Notably, the popularity of early morning slots cannot be overstated, with Oman Air buying a 05:30 AM arrival slot for a record \$75 million in 2016.

Uganda has managed to secure a 06:00 AM arrival into Heathrow (leaving at 09:00 AM) without purchasing the slot from another airline, according to Business Daily. This is a remarkable feat given how young the airline is (less than two years old) and considering it only received its first wide body

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a few months ago. Moreover, it highlights how sharply demand for slots has fallen at Heathrow.

Once Uganda's shiny new A330neos are certified by its regulators and the UK lifts its ban on non-essential travel, the airline will begin flights to London. According to a spokesperson for the airline, it plans to start flight at some time in May, saying,

"The aircraft are not yet certified by the regulator but we are hoping to have completed that process by the end of April. If the UK relaxes travel restrictions, we should be ready to launch London sometime in May."

ATCL suffers Tzs 60/= billion losses in 2019/2020 financial year.

The Control and Auditor General's (CAG) report for the financial year 2019/2020 has revealed that Air Tanzania Ltd is among the loss making government entities.

According to the report ATCL the national carrier recorded a loss of Tzs 60 billion in the financial year under review.

"We have discovered that ATCL has made losses of up to Sh60 billion but also in the past five years this company has been making losses annually. There are several challenges that the government ought to address immediately," said Charles Kichere.

This is despite having received additional equipment in terms of aircrafts that were bought by the government to aid the company's performance.

However, it is believed that the period under review was one of the most difficult one in the

aviation industry due to the outbreak of the Covid-19 pandemic which forced most countries to go into lockdowns.

Air Tanzania Company Limited (ATCL) consequently suspended all of its international flights in response with effect from March 25, 2020. In an interview with the journalist, ATCL CEO Mr. Ladislaus Matindi said the company reached the decision to suspend flights to Mumbai, Entebbe, Bujumbura, following a ban from the said countries while its Comoro route operated for the last time on March 23 2020. The company only resumed international flights in October 2020 after close to Seven months lay off.

IATA Reviews:

IATA outlined three main priorities for aviation in Africa.

The International Air Transport Association (IATA) outlined three priorities for African governments to ensure that the airline, travel and transport industry survives the COVID-19 crisis and is able to support economic recovery, growth and development throughout the continent.

The three priorities are:

- Continued financial relief and the release of committed aid and blocked funds
- Safe reopening of borders
- Planning for the safe restart of operations

Continued financial relief and the release of committed aid and blocked funds

In 2020 a handful of African airlines secured US\$ 2.04 billion in government aid. Most of this (US\$ 2.02bn) was distributed through direct government

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loans, equity financing and cash injections. Despite this, 8 airlines in Africa filed for bankruptcy or entered business administration over the past 12 months.

Over US\$ 30bn has been pledged for air transport and tourism in Africa by International finance agencies and other institutions including the African Development Bank, African Export Import Bank, African Union and the International Monetary Fund (IMF). However, most of this relief is yet to reach the airlines and other aviation stakeholders in need. On top of this \$ 601 million in airline funds remains blocked in Africa across 17 countries (Algeria, Angola, Benin, Burundi, Central African Republic, Eritrea, Ethiopia, Equatorial Guinea, Malawi, Mozambique, Nigeria, Sudan, Gabon, Cameroon, Chad, Congo and Zimbabwe) putting further pressure on airlines as they struggle for survival.

“African airlines posted a combined US\$2bn loss in 2020. This year we expect only a slight improvement (US\$1.7bn loss) as the struggle with COVID-19 continues. Looking ahead it’s unlikely that traffic will return to post COVID-19 levels until 2023. Financial relief measures are still desperately needed, particularly those that do not increase the industry’s debt burden. Additional relief measures and activating existing pledges are essential,” said Kamil Al Awadhi, IATA Regional Vice President Africa and the Middle East.

Government relief comes in many forms. Cost reductions in terms of taxes and charges will help. And the release of the \$ 601 million of airline revenues that are currently blocked from repatriation in certain governments would be an immediate boost in some markets. Governments will need a financially viable air transport sector to

energize economic recovery from COVID-19. Many of Africa’s airlines were weak even before the crisis. Reducing costs and freeing blocked cash has long been a priority for African aviation. If ever there was a time for decisive government action on these issues, it is now,” said Al Awadhi.

Safe reopening of borders

The African Union has taken leadership in preparing for the safe restart of aviation in Africa through its “Saving Lives, Economies, and Livelihoods” campaign. This promotes collaboration between different sectors of governments involved in the crisis including Ministries of Health, Transport and IT. IATA supports the AU’s efforts and urges governments in Africa to:

- Replace quarantine measures with testing. Today 20 countries in Africa have quarantine measures in place. Quarantine essentially means borders are closed. It is critical that those African governments implement effective alternatives to quarantine measures such as pre-departure testing for international travel, especially from countries with a similar risk-profile.
- Accept a reasonable validity period of five (5) days for COVID-19 testing for travel. Taking into account the waiting period for COVID-19 testing, the turnaround time of the results, and the accessibility of testing facilities on the continent, we urge governments in Africa to consider accepting the AU recommended validity period of five (5) days for COVID-19 testing for travel across the continent.
- Avoid COVID-19 vaccination as a mandatory pre-entry and exit criteria

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In line with the WHO, the airline industry does not support mandatory vaccination as a precondition to fly. Many potential travelers, particularly in Africa, cannot be vaccinated or will not have access to vaccines. Along with testing and track & trace capabilities, vaccination can be a tool to support the safe re-opening of borders without quarantine.

Planning for a safe Restart

Preparing the industry to safely restart after a year or more of disruption will take careful planning and advanced preparation. Governments need to develop the benchmarks and plans that would enable a safe, orderly and timely restart. That means working with governments in at least two areas:

1. Establishing operational restart plans
Safety remains the industry's main priority and is a critical pre-condition for restarting operations and for the build-up of traffic thereafter. Restarting an airline is not like flipping a switch; as such it is important to understand government plans. Airlines need to ready their crew, technical personnel and aircraft. After a year of lockdowns, this requires refresher training, checks and coordination. On top of that airlines will need time to market their services so that there are fare-paying passengers when operations resume.
2. Putting tools in place to manage new COVID-19 testing and vaccine requirements

Testing and vaccinations will play a role as the pandemic comes under control and economies ramp up, including the travel sector. Efficient digital management of health credentials is vital to restart. Manual processes will not be able to cope with volumes once the recovery begins. Digital solutions must be secure, work with existing systems, align with global standards and respect data privacy.

IATA has developed IATA Travel Pass to manage health credentials, protect against fraud and enable a convenient travel process. It is being trialed by a number of airlines and airports around the world, including Ethiopian Airlines and RwandAir in Africa. Another major African carrier is expected to come on board soon. IATA Travel Pass compliments the work being done by the AU to safely manage travel.

Currently IATA Travel Pass manages COVID-19 test requirements. Once global standards to record digital vaccines credentials have been developed, the app can also be used by travelers to manage their proof of immunization. The WHO is currently developing these global standards and we urge African governments to adopt these for those people who have been vaccinated and plan to retrospectively record those who have already been vaccinated.

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Tanzania Government to Rescue Air Tanzania Company Limited:

The Tanzania government vows to throw its weight on aviation infrastructure improvement and to rescue the national carrier – ATCL as the heart of economic growth.

President Hon. Samia Suluhu Hassan told the nation while addressing the National Assembly in Dodoma on 22 April 2021; which while a lot has been done in that front in the last five or so years, there will be more thrust in the Sixth Phase Government.

She pledged that the government will strategically take care of Air Tanzania Company Limited so that at the end of the day, it operates profitably. As of now, she said, the national ATCL reads as a deficit company that emanated from huge debts it inherited. The government to look at the debts and charges subjected to ATCL by taking some off its shoulders.

President Samia noted that, the government will ensure ATCL stands firm again, by getting rid of everything that has no productivity in its operations from time to time.

The government will be investing on capable human resource as it moves to engage in thorough evaluation of the company and make sure that it is put under and run by competent professionals in the field of air transport.

Also on the other hand are strategies to complete construction and refurbishment of airports, including construction of the new Msalato Airport in the nation's administrative capital of Dodoma.

Moreover, Air Tanzania is thinking of adding more Airbus A220 aircraft to its current fleet. The news of the expansion comes amidst the current COVID-19 medical emergency, with many airlines looking to consolidate rather than expand.

During an address before Parliament on April 13, Tanzania's new Prime Minister Kassim Majaliwa said that the government had paid for the new aircraft and that they would be arriving during the 2021/2022 financial year.

The Prime Minister also complimented Air Tanzania for launching its Dar - Guangzhou route. He called the flights between Tanzania and China as being a catalyst for boosting tourism, trade, and employment.

CPaT Announces Air Tanzania Contract:

CPaT Global (specialist in e-learning solutions for airlines) announced it has been awarded a new contract by Air Tanzania for the provision of distance learning solutions, including Aircraft Systems courses, Interactive Diagrams, Aircraft Procedures, CPaT's General Subjects Library, and Invent, CPaT's new, software development platform. Air Tanzania will use CPaT's curriculum to train on the A320, Q300, Q400, and B787 fleets.

ATCL is a government-owned airline with a total of eight aircraft in its fleet: Four Dash 8-Q400, two Airbus A220-300, and two Boeing 787-8 Dreamliners. There are plans to integrate the Dash 8-Q300 that is in maintenance into the current fleet taking the total to nine aircraft by June 2021. An

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additional Dash 8-Q400 and two more Airbus A220-300s are expected to be delivered by July 2021, taking the total number of aircraft to 12.

Kenya Airways suspends Nairobi – UK passenger flights:

Kenya Airways has suspended passenger flights between Nairobi and the UK effective from April 9, as the carrier said in their statement after government directive suspending all flights from the UK, to retaliate a move by London to add the country on its travel 'red list' which state that, travelers' arriving in the UK from countries on the 'red list' (Kenya including) will be denied entry, while returning Britons must submit to 10 days of mandatory quarantine in government-approved hotels at their cost.

"Customers impacted by this directive may change their bookings for later or request a refund with all penalties waived. All tickets must be utilized before March 31, 2022."

The cancelation of flights between Kenya and the key destination brings another blow to the Kenyan national carrier, which recently reported its worst ever loss of Kshs 36.2 billion for the year ended December 2020.

TCAA conducted sensitization working group meetings to Aviation Medical Examiners & Assessor.

Aviation Medical Examiners (AMEs) were appraised on their importance to aviation development in connection to International Civil Aviation Organization (ICAO) which requires each state to have AMEs and Aviation Medical Assessor (AMA) in place.

Mr. Hamza S. Johari, Director General TCAA, in his opening remarks to the first TCAA AME working group meeting organized by the Directorate of Safety Regulation, stressed on the powers entrusted to AMEs by the Authority, to examine various licence applicants for medical fitness in accordance with prescribed medical standards and finally to make a fit or unfit recommendation to the Authority.

The Authority is required by ICAO to have AMEs and AMA (s) holding different responsibilities. Their performance is subject to Audit and thus contributing to overall Authority performance pursuant to compliance of ICAO (Standards and Recommended Practices) SARPs

DG Hamza said that, it is the duty of the AMA to make a final assessment of these applicants based on the reports presented by the AMEs. He highlighted on the roles AMEs as gate keepers in a sense that, they are expected to selectively allow candidates who qualify the prescribed standards to enjoy the privileges of their licenses. He also underscored the close coordination and liaison between the Personnel Licensing section and Medical Office as paramount since the latter determines the medical fitness of various licence holders.

On his technical presentations, Dr. Alexander Mkwizu, TCAA - Aviation Medical Assessor pointed out the existing connection between a human being's psychology and physiology in tandem with various aircraft systems in achieving flight safety. In this regard, it is crucial to make an error-free decision when it comes to selection of qualified licence applicants on medical standards basis.

Some of the cited Technical Guidance Materials discussed were, The Civil Aviation (Personnel) licensing Regulations, 2017 (Reg 144 to 185), Aviation Medicine related TCAA Orders and Circulars, TCAA Aviation Medicine Protocols, ICAO

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Annex 1 (chapter 6) and Manual of Civil Aviation Medicine etc.

Mentioning some of the achievements attained, DG Hamza added that the Authority has succeeded in employing a full time Medical Assessor in compliance to ICAO SARPs.

In collaboration with the Medical Assessor, TCAA has succeeded in Organization of Medical office within TCAA, increasing the number of AMEs from one in 2017 to 12 in 2021, advancement in Aviation Medical Certification Standards, establishing applicant's medical database, periodic analysis of applicants' medical conditions, enhancing AME Audit and oversight and facilitating familiarization flights, to mention a few.

IATA Reviews:

IATA outlined three main priorities for aviation in Africa.

The International Air Transport Association (IATA) said airline carriers will lose about \$48 billion in 2021, it had earlier forecast a \$38 billion deficit.

“This crisis is longer and deeper than anyone could have expected,” said Willie Walsh, the former chief of British Airways owner IAG SA, who's now IATA's director general. “Losses will be reduced from 2020, but the pain of the crisis increases.”

The downward pivot comes as airlines contend with new travel bans and restrictions arising from outbreaks in large aviation markets such as India and Brazil. Governments of countries that have ramped up vaccinations most quickly have become cautious about restarting travel to prevent the import of new variants that could prove resistant to jabs.

After the industry lost about \$126 billion in the teeth of the crisis during 2020, there were high hopes for a rebound in air travel during the first half of this year. IATA now says the crucial summer season is at risk.

Demand will reach 43% of 2019 levels during 2021 -- a more optimistic outlook than issued in February, but less bullish than in December, when vaccines were first being rolled out. At that time IATA saw traffic this year recovering to about half of pre-pandemic levels. Industry break even, previously expected in the fourth quarter, will now be delayed into 2022.

The new estimates assume a partial reopening of some markets in Europe in time for summer flying, and also of some trans-Atlantic services, IATA Chief Economist Brian Pearce said. These routes should be fully open in the fourth quarter, with more than 75% of relevant populations vaccinated, he said.

While optimism for the second half hinges mainly on the continuing rebound of large domestic markets like the U.S. and China, Walsh said he's a little more upbeat about Europe than IATA's official projections. Testing of the group's Travel Pass app is continuing with more than 50 airlines signed up.