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THIRD SESSION – SEVENTH PARLIAMENT

FIRST REPORT

**OF THE PORTFOLIO COMMITTEE ON TRANSPORT AND INFRASTRUCTURAL
DEVELOPMENT**

ON

AIR ZIMBABWE AND THE CIVIL AVIATION AUTHORITY OF ZIMBABWE

Presented to Parliament 16 November 2010

S.C.7, 2010

ORDERED IN TERMS OF STANDING ORDER No. 159:

- i) At the commencement of every session, there shall be as many committees to be designated according to government portfolios to as the Standing Rules and Orders Committee may deem fit.
- ii) It shall be the function of such committees to examine expenditure administration and policy of government departments and other matters falling under their jurisdictions as Parliament may, by resolution determine
- iii) The members of such committees shall be appointed by the Standing Rules and Orders Committee, from one or both Houses of Parliament, and such appointments shall take into account the expressed interests or expertise of the Members and Senators and the political and gender composition of Parliament.
- iv) Each select committee shall be known by the portfolio determined for it by the Standing Rules and Orders Committee.

5 TERMS OF REFERENCE OF PORTFOLIO COMMITTEES S.O 160

‘Subject to these Standing Orders a Portfolio Committee shall:

- 2 Consider and deal with all Bills and Statutory Instruments or other matters which are referred to it by or under a resolution of the House or by the Speaker;
- 3 consider or deal with an appropriation or money bill or any aspect of an appropriation or money bill referred to it by these Standing Orders or by or under resolution of this House;
- 4 monitor, investigate, enquire into and make recommendations relating to any aspect of the legislative programme, budget, rationalization, policy formulation or any other matter it may consider relevant of the government department falling within the category of affairs assigned to it, and may for that purpose consult and liaise with such a department;
- 5 consider or deal with all international treaties, conventions and agreements relevant to it, which are from time to time negotiated, entered into or agreed upon.

(i)

On Tuesday, 13 July 2010, the Speaker announced that the Committee on Standing Rules and Orders nominated the following members to serve on the Portfolio Committee on Transport and Infrastructural Development:-

Hon Baloyi

Hon Chanetsa

Hon Chebundo

Hon Dongo

Hon Dzirutwe

Hon Huruba

Hon Mandebvu

Hon Mhlanga

Hon Mushore

Hon Ncube S

Hon Nyakudanga

Hon Raradza

5.1 Hon Chebundo to be Chairperson

1. Introduction

1.1 The Portfolio Committee on Transport and Infrastructural Development conducted an inquiry into the operations of Air Zimbabwe Holdings and the Civil Aviation Authority of Zimbabwe (CAAZ) as part of its oversight function.

2. Committee's Objectives

5.1 The Committee sought to establish the following:

- v) Operational challenges faced by Air Zimbabwe and CAAZ;
- vi) The issue of restructuring/retrenchment at Air Zimbabwe;
- vii) Why the Airline had terminated some of its routes; and
- viii) The state and security of the airports throughout the country.

3. Methodology

3.1 The Committee received oral and written evidence from workers, management and Board of Directors of Air Zimbabwe, CAAZ and Ministry of Transport and Infrastructural Development Officials. The Committee also conducted a fact-finding visit to Harare Airport. It was shown around Air Zimbabwe premises, toured the airport and the scene of the accident and the aircraft that was involved in the accident with warthogs.

4. COMMITTEE'S FINDINGS

4.1 Air Zimbabwe Holdings

4.1.1 The Committee established that Air Zimbabwe Holdings was currently facing operational challenges arising from a number of reasons ranging from high operating costs, low load factors, debt overhang, overstaffing, and lack of 'clear-cut separation of powers' between management, board and Ministry. This was attributed to gross under capitalization, past regulatory environment, un-timely implementation of turn-around strategies, sanctions, and unsettled labour disputes. The Committee established that other than the purchase of the 737s in 1986 and 1987 and subsequent purchase of the 767s in 1989 and 1990, there has been no capital injection into the airline.

- 4.1.2 It was submitted that the Airline was not at liberty to charge economic fares. During the price control and Zimbabwean dollar era, the Airline was said to have made a huge loss. Following a Cabinet decision that the airline could not be allowed to charge in foreign currency, a fare for a trip from Harare to London charged in Zimbabwe dollar translated to about US\$25.00 but the actual cost in the region was \$800.00. This contributed a lot to the accumulation of the debt since the shareholder did not allow Air Zimbabwe to operate economically. The shareholder chose for the Airline to collect in Zimbabwean dollar which the airline could not use because its services were paid for in foreign currency.
- 4.1.3 Both management and staff emphasized the need to have new aircrafts. The Airline's current fleet is aged and has become costly to maintain. Maintenance costs were said to be too high and the major cost drivers include Jet A1 fuel, aircraft maintenance, navigation fees, handling fees, crew allowances and aviation insurance. The Committee was informed that fuel consumption and maintenance represent 40% of the airline's total cost. It was submitted that as long as the airline continues to operate the aged aircrafts, it would have 40% expenditure which the airline cannot afford.
- 4.1.4 Emphasis was put on the cost of fuel (Jet A1) which both management and staff said remains the highest cost driver in Aviation. Zimbabwean Jet A1 is one of the most expensive fuel in the region. This makes it difficult for Air Zimbabwe to compete with other airlines.
- 4.1.5 The Committee was informed that the Airline's liabilities to suppliers was increasing on a daily basis and stood at \$64 million as at 25 October 2010. The debt is not a result of borrowings but arose from nonpayment to service providers. It was stressed to the Committee that the airline was basically operating on an overdraft facility. The Committee established that prior to February 2009, Air Zimbabwe's cost and revenue structure was such that while its expenditure was 70% in foreign currency, its foreign currency earnings were only 10%. Both management, board and staff expressed the need for injection of working capital because of that mismatch on the structure.

- 4.1.6 The airline's top five creditors are ENNA, ASECNA, CATIC, Aero Industrial Sales and American General Supplies. The Committee was informed that creditors are always threatening to cut their services if the Airline does not pay. The Chief Executive Officer of Air Zimbabwe informed the Committee that as at 14 December 2009, four companies had taken Air Zimbabwe to court because of non payment. It was also submitted that there were court rulings in France to the effect that they could impound Air Zimbabwe aeroplanes at any time without any further notice and that Air Zimbabwe had also received warnings to suspend services from British Airport Authorities, and American General Supplies which is Air Zimbabwe's major supplier of aircraft spares.
- 4.1.7 It was disturbing for the Committee to hear that Air Zimbabwe was suspended from IATA clearing house in February 2009. The Committee learnt that about 60% of operating expenses were being paid through IATA Clearing House. The Committee was informed that the Airline was earning between 8 to 12% additional revenue by channeling its passengers on to other airlines and has lost that facility. The suspension means that the airline has to operate on a cash basis stretching the company's limited financial resources. The challenge is that when a passenger wants to travel beyond Air Zimbabwe routes, one has to stop and buy another ticket because Air Zimbabwe is no longer a member of the IATA clearing house and therefore cannot exchange passengers with other airlines.
- 4.1.8 The Committee was informed that in 1996, Air Zimbabwe was carrying one million passengers per annum. Those were the times when the tourism industry was doing well with good traffic. Air Zimbabwe was then enjoying a load factor of about 76% to 80%. At the moment Air Zimbabwe is operating at load factors of 45% and at best days 50% of its utilization. It was submitted that as long as there is low traffic into the country, even if new aeroplanes are bought and there is recapitalization the business would not improve. The economic and political environment in the country need to be improved so that people start coming to Zimbabwe. Air Zimbabwe's business is to move people and cargo in and out of the country. The fact that Zimbabwe as a country has received so much negative publicity, any company owned by government has received the same bad

- publicity. The recent strike by pilots as a result of failure by the airline to pay full salaries and allowances was said to have also caused a negative impact in terms of the business operations, company image and industrial relations.
- 4.1.9 Air Zimbabwe's traffic has been reduced also because Air Zimbabwe has not been able to service some of its debts. If one goes on the internet what one finds about Air Zimbabwe is not favourable and one will not want to travel with such an Airline.
- 4.1.10 The ageing fleet was said to be another major challenge in attracting passengers. The Committee was informed that the average age of Air Zimbabwe's fleet was 20 years for the Boeing 767 and 23 years for the Boeing 737. It was submitted that the average economic life for an aircraft is 15 years. Air Zimbabwe's aircrafts are less appealing compared to other airlines and this has an impact on passenger choice and costs. Pilots also requested for new aircrafts citing the above reasons.
- 4.1.11 The Committee was shown a Boeing 767 which was going through a major maintenance service. The Committee was told that the aircraft was taking long to finish because of lack of spare parts. The Airline needed resources to purchase the spare parts. The Committee also toured Air Zimbabwe's workshop and was disturbed to hear that the workshops do not have adequate equipment because of lack of funding. The Committee was also told that Air Zimbabwe lacked advanced equipment to service other airlines' aircraft that land in Zimbabwe resulting in them bringing their own technicians. Workshop staff said they needed constant training on how to use advanced equipment so that they keep up with new technology.
- 4.1.12 The Airline had experienced an exodus of critical manpower such as pilots, engineers and flight dispatchers. Loss of skilled manpower is as a result of the Airline's inability to match competitive remuneration packages offered within and outside the region. The Committee was told that if this trend continues unabated the Airline runs the risk of being unable to deliver service to its clients.
- 4.1.13 The management and board informed the Committee that the decline in traffic for both passengers and freight had necessitated Air Zimbabwe to embark on a route

rationalization strategy. The airline had to cut off the routes that were not viable. The Committee learnt that at its peak, Air Zimbabwe serviced twenty five routes but currently the airline was servicing eight routes. In order to cut costs Air Zimbabwe had to withdraw from the following routes: Democratic Republic of Congo, Dubai, Nairobi, Dar-Es-Salaam, Kariba, Masvingo, Buffalo Range, Guang Zhou (China). Harare/London route was reduced from three to two flights per week and Harare/Singapore/Beijing route was reduced from two to one flight per week.

- 4.1.14 However workers felt that these routes are very viable because other airlines are always fully booked for those routes. They argued that Air Zimbabwe did not market these routes well.
- 4.1.15 It was submitted that the need to restructure and rationalize Air Zimbabwe Group's manpower levels was identified in the Air Zimbabwe's Turnaround Strategic Plan of 2004. The airline started its retrenchment in 2008 because of the continued shrinkage of the business following the low tourist arrivals and the recent world recession. The Committee was informed that the airline was going down financially hence there was need to retrench in order to reduce the wage bill.
- 4.1.16 The management of Air Zimbabwe informed the Committee that consultative meetings were held between management and workers on the retrenchment exercise. However workers alleged that they were not consulted. The workers representatives informed the Committee that there was a need to retrench in 2004 but there was need in 2008 to review the whole process before the actual retrenchment. They said the exercise could have been done differently.
- 4.1.17 The management however justified the retrenchment arguing that the poor financial performance has also attributed to overstaffing, the unsustainable wage bill and the inefficiencies in service delivery due to mismatch in employment levels to industry standards among other factors. The Committee was informed that the retrenchment process had faced many challenges with the Unions challenging the validity of the notices given to individual employees. The retrenchment exercise has been contested by the Unions and the matter is pending

at the Supreme Court awaiting a hearing date. The management of Air Zimbabwe informed the Committee that eight one employees out of those targeted for retrenchment had come forward to negotiate their retrenchment package and the Retrenchment Board had approved. The Airline however needs \$1.5 million for the retrenchment exercise. The Chief Executive Officer expressed concern that the retrenched people had gone for several months without pay. He said there was need for shareholder to avail the \$1.5 million needed for the retrenchment exercise.

- 4.1.18 However both workers and management expressed concern that the future of the airline was at stake and appealed to the shareholder to inject some working capital in order to rescue the airline. They gave an example of the Zambian government that let their airline collapse and they cannot bring it back. It was also a concern to both management and staff that experienced personnel especial pilots were leaving the airline yet it is not easy to train pilots and worse to employ pilots from other airlines.
- 4.1.19 Both management and staff recommended that the shareholder should inject some working capital to improve the current state of the airline and then look for a strategic partner. They argued that as it is, the airline will not have much value if sold in its present state.
- 4.1.20 The Committee was informed that a Cabinet Committee was formed to review the performance of the airline, its route network, the financial status of the airline, fleet status and reequipping. This Cabinet Committee would also look at the short term measures to survive and to grow and measures to close the gap between the current expenditure and dealing with the debt.

4.2 Civil Aviation Authority of Zimbabwe (CAAZ)

- 4.2.1 The Committee's enquiry on CAAZ focused mainly on the state and security of the airports. The Committee was informed that CAAZ's mandate is to manage airports and air space, provision of aviation regulatory services and safety oversight on air operators. The Committee established that CAAZ was both the regulatory authority and service provider which is not a favourable set up. In

other countries, these duties are separated. CAAZ itself proposed that these two functions be separated. CAAZ gave an example of South Africa which runs five airports purely as business and a regulatory authority is on its own.

- 4.2.2 The Committee learnt that CAAZ had not been spared from the challenges that have affected the operations of any other parastatals or business in the country. The challenges among them was the business down turn since 1999 to 2003 where CAAZ lost 50% of the traffic that was plying to Zimbabwe. The Committee was informed that the situation had remained depressed. The General Manager said the industry is driven by tourism and a good economy. As a result of the above, CAAZ is not able to utilize the infrastructure that is currently available as it is operating at 20% capacity. However this has got negative impact as the Authority is unable to raise adequate funds for the maintenance of that infrastructure.
- 4.2.3 It was brought to the attention of the Committee that Air Zimbabwe owed CAAZ US\$11 208 063 as at 30 September 2010. The creditor and debtor have however agreed to some arrangement whereby Air Zimbabwe makes regular payments to CAAZ to manage the debt. Considering the viability challenges facing the airline, it is unlikely to liquidate the debt soon. CAAZ said if Air Zimbabwe were to pay CAAZ this amount, it would go a long way in replacing some of its old and unserviceable airport and navigation systems. It was pointed out that Harare International Airport is the only airport in the world without flight information display system and CAAZ requires about \$1.6 million for the installation of the system.
- 4.2.4 The Committee was told that the runways, taxi ways and terminal buildings and air navigation equipments that support the Aviation at Harare Airport and other airports throughout the country were long overdue for rehabilitation. The Committee was informed that the Ministry of Finance availed some funds for rehabilitation of runways and taxiways at Harare and JM Nkomo International Airports. It was submitted that the taxiways will be completed by February 2011 and runway by October 2011 at the Harare International Airport.

- 4.2.5 Airports throughout the country were said to be in state of disrepair because of the Authority's incapacity to expeditiously implement its airport infrastructure development and equipment modernization programme due to inadequate funding.
- 4.2.6 The Committee learnt that surveillance systems have also seen their days. They were installed in 1992 and generally their life expectancy is between 10 and 12 years and are overdue for replacement.
- 4.2.7 Power cuts at the airports impact negatively on the operations of CAAZ. The authority requested that the airports be spared from power cuts. Any airport should normally have dual supply. Electricity to Harare International Airport is supplied from a domestic line through Hatfield. The Authority said there is need to have a dedicated main power supply line that goes to the airport and is not subjected to power cuts.
- 4.2.8 The Committee was informed that water and sewer reticulation at the airports is also a challenge because most of these systems were installed when the airports were constructed and are no longer functioning properly. For Example water and sewer reticulation systems in Harare were put in 1957 when the Harare International Airport was opened and not much upgrading had been done to cater for the increases in population and expansion of the airports.
- 4.2.9 The Committee was informed that CAAZ had started expanding the Victoria Falls Airport terminal building because it cannot cope with the increased traffic that is now plying Victoria Falls. However CAAZ said at the moment rehabilitation and extension of the runway is a priority as the existing runway is old and short such that it cannot accommodate large aircrafts like A319. The ideal situation is to have a 4 km runway and a parallel taxiway. For the runway and taxiway, the project would cost seventy (\$70) million dollars and \$125 (one hundred and twenty five) million dollars including construction of the terminal building.
- 4.2.10 Charles Prince Airport does not have a terminal building. The runway and taxiway are in a good state but the perimeter fence is in a bad state of repair. The Committee was informed that CAAZ and Conwall School are discussing the possibility of moving the school because of safety reasons. Terminal building,

- runways and taxiways at Buffalo Range Airport are in need of rehabilitation and upgrading due to their age. At Kariba, Hwange and Masvingo Airports, the runways and taxiways require constant repair due to their age.
- 4.2.11 Security at Harare International Airport was said to be generally fair except one peculiar incident where an aircraft was involved in an accident with wild pigs. CAAZ was now facing a challenge of wild pigs that dig under the fence and get into the airport. CAAZ admitted that there was need to manage the environment in and round the airport in such a manner that there are no animals roaming on the runway. During its visit to Harare Airport, the Committee was however informed that children were seen playing on the runway and that a jewelry shop was broken into.
- 4.2.12 The Committee was informed that in 2007 and 2008, quite a number of key staff officers like aircraft controllers, technicians, engineers, electricians, safety oversight inspectors and information service officers left the authority for greener pastures.
- 4.2.13 The Committee was informed that CAAZ inherited a debt which amounts to the tune of \$149.3 million and this debt upsets the authority's balance sheet. The debt was transferred from government to the authority at the time the authority was established. The Authority is of the opinion that government should take over the debt.
- 4.2.14 It was also submitted that CAAZ had requested government to allow them to introduce an Aviation Development Fund. This is a fund that will be levied on departing passengers and will be put in a special account which will be used for the purposes of offshore borrowing. The General Manager said this will allow those critical infrastructure development programmes to be undertaken and completed within the time frames that are reasonable. They proposed that this programme run for ten years and it will release pressure on the fiscus and more importantly CAAZ will be able to implement those critical programmes that are hampering the authority's operations.
- 4.2.15 The Committee was informed that CAAZ had no board of directors at the moment. The last board of directors' term expired in December 2009.

5. COMMITTEE'S OBSERVATIONS

5.1 Air Zimbabwe Holdings

- 5.1.1 The Committee also observed that the airline has a huge debt and noted that this debt upsets the airline's balance sheet and makes it impossible for the airline to borrow resulting in the airline having to operate on cash basis which is even a worse situation considering the airline's cashflow problems.
- 5.1.2 The Committee observed that the airline is in need of urgent capital injection because it incurred huge losses during the period it was denied permission to charge in foreign currency and was said to continue operating at a loss of US\$ 2 million per month.
- 5.1.3 The Committee is also in support of the staff and management of Air Zimbabwe that there is need for the shareholder to look for a strategic partner. However this can only be done after the shareholder has injected some working capital in order to improve the current state of the Airline. As it is right now Air Zimbabwe Holdings' value will not be much.
- 5.1.4 The Committee observed that the Shareholder was interfering with the day to day running of the Airline. The Committee feels that this should be left to the board and management. The shareholder should give policy guidelines and the board and management should implement those.
- 5.1.5 The Committee noted with concern that Air Zimbabwe management delayed in implementing the 2004 Strategic Plan Document and this has caused all these contestations by retrenched workers. Whereas the retrenchment exercise was noted in 2004, it was necessary in 2008 for the management to review the exercise and consult workers before implementing the exercise.
- 5.1.6 The Committee also observed that the continued suspension of Air Zimbabwe from AITA Clearing House is impacting negatively on the airline's revenue collection as passengers are opting for other airlines with better traveling packages.

5.2 Committee Observations CAAZ

- 5.2.1 The Committee noted that CAAZ was both service provider and a regulatory authority. These two must be separated to improve the efficiency of both the service provider and the regulatory authority.
- 5.2.2 The Committee also noted that security at the Airport needed to be improved as experienced by presence of wild pigs on the runway, children seen playing on the runway and a jewelry shop that was broken into.
- 5.2.3 The Committee observed that the completion of projects at the airports throughout the country was taking long because of lack of adequate resources and this has a negative impact on the operations of the Authority.
- 5.2.4 The Committee observed that the absence of a board for almost a year has negative impact on policy implementation.

6. **RECOMMENDATIONS**

- 6.1 The Committee recommends an urgent recapitalization by the shareholder. The shareholder then can look for a strategic private partner in order to rescue the airline after capital injection.
- 6.2 The Committee also recommends that for the good of the airline, the shareholder should be concerned with policy issues and leave the day to day running to the board and its management.
- 6.3 The shareholder has contributed a lot in the accumulation of the debt by ordering the airline to charge uneconomic airfares. The Committee recommends the shareholder to take over Air Zimbabwe Holdings debt.
- 6.4 There is need for the shareholder to do a human resources audit to assess the personnel's technical competency to run the airline.
- 6.5 There is need for competitive remuneration for technical personnel so as to retain experienced personnel.
- 6.6 The Committee recommends the airline to reintroduce some of the routes that were terminated during the hard times.
- 6.7 Air Zimbabwe should charge market value fares and the shareholder should not interfere. Air Zimbabwe should be run as a company not a department in the Ministry of Transport and Infrastructural Development.

- 6.8 CAAZ should not be both a regulatory authority and a service provider. The two should be separated.
- 6.9 There is need for government to adequately fund CAAZ' PSIP projects in order to improve the state of the airports and operational facilities.
- 6.10 There is need for the shareholder to appoint a new board of directors for CAAZ as soon as possible because the Authority has been operating without a board since January 2010.
- 6.11 The Committee recommends that the proposed Aviation Development Fund by CAAZ be deferred until there is a regulatory authority on one hand and a service provider on the other.