

Domestic Aviation in Maldives – A Summary and Analysis of Recent Developments

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Introduction

While the Maldivian economy is largely dependent on a single industry – tourism – for its economic growth and foreign exchange earnings, a number of supporting sectors have arisen over the years to cater for the demand of auxiliary services created in line with this booming industry. The transport sector is one such vital component of the economy at present, contributing about 9% of GDP over the past decade. Despite its growth being quite volatile, the transport sector has had a robust average annual growth of 8.4% between 2003 and 2012, supported by the development of infrastructure in various regions and expansion in transport services.

The transport industry encompasses all modes of transport such as land, air and sea transport. Among this, sea transport is the most common mode of transport for locals, due to its accessibility and cost effectiveness. Nevertheless, in terms of growth of the transport sector as a whole, air transport or aviation is the major component that drives this industry. This is due to the huge demand for air transport services emanating from the tourism sector and also from the steady increase in the demand from the local population. As such, from 2001 to 2012, roughly 60% of all tourists are estimated to have travelled domestically by air to their resorts. Historically, the growth of the transport sector has thus been closely related to the growth of the tourism sector, being affected by the same shocks as those to tourism.

In terms of domestic aviation in the Maldives, it comprises of two significant components: seaplane operations and domestic airline operations. This article focuses on these two components of domestic aviation and looks at its significance to the Maldivian economy. It also highlights the most recent developments observed in the sector and discusses the trends in aviation passenger movements over the last decade.

Recent Developments

One of the biggest improvements that have taken place in the transport sector is the rapid development of regional airports in the past few years. Due to its geographical dispersion, Maldives has always had an acute need for a well-developed transport system. Although this need was traditionally catered for by maritime transport services, the expansion of tourism into peripheral atolls, especially after 2004, underlined the need for northern and southern air

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transport hubs – to be able to cater for tourists. Additionally, changes in national development policy plans in recent years have also helped pave the way for the development of regional airports.

While 4 domestic airports were established prior to 1995, primarily to serve Maldivians, the next domestic airport was not established until 16 years later – in 2011. Within a span of three years (from 2011 to 2013), a number of domestic airports were built and two airports were upgraded to international standards (Table 1). This acceleration in the pace of airport development was mainly due to a greater emphasis placed by the government on developing tourism infrastructure as a large number of new resorts were leased out. Tourism Master Plans (compiled by the Ministry of Tourism once about every five years) have consistently called for the development of additional major transport hubs to the north and south. As such, difficulties in accessibility are faced more significantly by developers of new resorts, in transporting materials and labour to remote islands. In this respect, the third Tourism Master Plan (2007) highlighted the need for more domestic airports as well as seaplane hubs in the northern and southern zones of Maldives, in order to enable resort development to prosper in atolls far from Male'. Moreover, the fourth Tourism Master Plan (2012) specifically calls for the development of Hanimaadhoo and Gan as transport hubs in the north and south, respectively. These transport hubs are planned to be developed with a marina, seaplane base and cruise facilities in order to attract new investment as well as to provide necessary infrastructure and support services for existing resorts.

Hence, recognising the need for infrastructure development in the tourism sector, the government embarked on a plan in the early 2000s to establish 10 regional airports and airport hotels, to expand air transport services. Additionally, government policies to improve air transport as a means of travelling for locals also helped to fast-track the establishment of airports. These airport development projects were carried out under the Public Private Partnership program introduced by the government. While 10 airports are in operation at present – 4 international and 6 domestic airports – 2 additional airports have also been proposed to be opened soon.

Table 1: List of Airports and Dates of Opening

Before 1995	Ibrahim Nasir International Airport
	Gan Airport
	HDh. Hanimaadhoo Airport
	L. Kahdhoo Airport GDh. Kaadehdhoo
2007	<i>Gan International Airport*</i>
2011	ADh. Maamigili*
	Gn. Fuahmulah
2012	<i>HDh. Hanimaadhoo Airport*</i>
	B. Dharavandhoo
	Ga. Kooddoo
2013	<i>ADh. Maamigili (Villa International Airport)*</i>
	Th. Thimarafushi
Upcoming	N. Maafaru
	R. Ifuru

* upgraded to/opened as international airports
Source: Press releases from the Presidents Office, Villa group; Maldives Airports Limited; Haveeru Online

Despite the advancement of regional airports at Gan, Hanimaadhoo and Maamigili¹ to international airports, the number of international aircraft movements at these airports remains relatively low. As such, while Hanimaadhoo International Airport has had no international aircraft movements by 2012, only a mere 3% of all aircraft movements in Gan International Airport (since 2007) are recorded to be international airlines. Nevertheless, the transition of several regional airports to international levels has been an impetus for the growth of air travellers within Maldives.

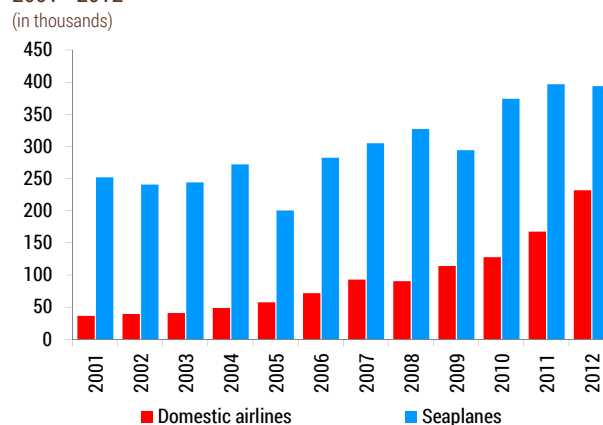
Seaplanes and Domestic Airlines

For the purpose of analysis, the domestic aviation operations have been divided into two separate components: seaplane and commercial airline operations.

Seaplanes were first introduced in the Maldives in the late 1990s with the development of tourism beyond the central regions surrounding Male'. While tourist resorts were initially clustered around the capital city in Kaafu and Alifu atolls, tourism policies by the government placed emphasis on developing resorts in the northern and southern parts of the country, thus creating a greater need for an accessible transport system. Due to the lack of an extensive maritime transport network and the underdevelopment of regional airports, seaplanes account for a large proportion of tourist transfers between the airport and the resorts. In addition to being a means of transport for tourists, it is also commonly marketed as an attraction in itself due to the unique experience of travelling in a seaplane.

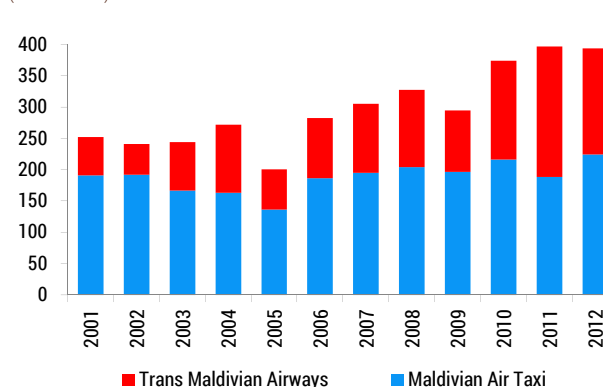
¹ The regional airport at Maamigili was renamed Villa International Airport when it was inaugurated as an international airport in 2013.

Figure 1: Domestic Airline and Seaplane Passenger Movements, 2001 - 2012



Source: Civil Aviation Authority

Figure 2: Seaplane Movements by Service Provider, 2001 - 2012



Source: Civil Aviation Authority

Two seaplane operators, Trans Maldivian Airways (TMA) and Maldivian Air Taxi (MAT) have competed in the industry since its inception, serving approximately 45% of all tourist arrivals (over 300,000 passengers) throughout the past decade. In 2013 however, TMA and MAT were bought over by US-based private equity fund Blackstone and now operates under the TMA name.

Although seaplanes were introduced in the late 1990s, domestic airline operations began much earlier in the 1970s, along with the establishment of the first national carrier of the country, Air Maldives. While Air Maldives operated international routes to enable greater access for foreign visitors into Maldives, it also began operations on domestic routes between the established regional airports, catering for the local population during the 1980s. However, the airline declared bankruptcy in 2000 and was replaced by the flight operations of Island Aviation Services Ltd, a government owned company, becoming the new national airline of the country. Initially, flights were only operated on the domestic routes. However, in 2008, the airline commenced international flights and additionally rebranded themselves as Maldivian, the national flag carrier of Maldives. The development of new regional airports in recent years have stimulated the growth of domestic aviation in the country, as new and private airline operators entered the industry.

Considering the passenger movements of both seaplanes and domestic airlines, it can be observed that while seaplane passenger movements have averaged over 300,000 during the past decade, passenger movements of domestic airlines have remained relatively lower – around 100,000 (Figure 1). Moreover, passenger movements of seaplanes largely reflect tourist arrival trends, with distinct dips observed in both 2005 and 2009. The number of tourist arrivals into the country decreased by 36% and 4% in these two years, respectively. While seaplane movements stagnated somewhat in 2012, following a mere 3% growth in tourist arrivals, this was somewhat offset by the modest increase in commercial flight operations during the year, attributed to the opening of new regional airports and new airlines expanding their services, which boosted the domestic airline industry.

Market Composition of Seaplanes

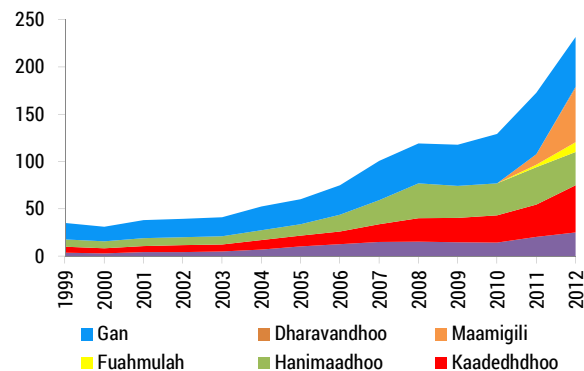
Seaplanes usually operate only from Ibrahim Nasir International Airport to resorts and are usually chartered by travel operators. Therefore, most seaplanes ferry tourists and only a small percentage of passengers are locals, who mainly travel for work to resorts. Between 2001 and 2005, about 49% of all tourists are estimated to have travelled to resorts via seaplanes; this number has decreased slightly to 45% in the past five years, along with the expansion of domestic airline services.

Delving into the market composition of the seaplane industry, between 2001 and 2012, MAT has served 63% of all seaplane passengers while TMA accounts for the remaining 37% (Figure 2). This is equivalent to 48% and 28% of all passenger movements in the domestic aviation industry (including domestic airlines), for MAT and TMA, respectively, during this period.

Domestic Airlines

Domestic aviation between regional airports, as measured by commercial airline operations, has increased rapidly throughout the past decade (Figure 3). While less than 50,000 passenger movements were recorded in 2003, this number has quadrupled to reach more than 200,000 by 2012. This exponential growth in recent years can be partly attributed to the commencement of operations by two new airlines in 2011 – Mega Maldives Airlines and Flyme. Prior to this, Maldivian Airlines existed as the sole domestic carrier in Maldives. The most notable growth in the sector was thus

Figure 3: Passenger Movements of Domestic Airlines by Destination, 1999 – 2012
(in thousands)



Source: Civil Aviation Authority

observed in 2011 and 2012, with passenger movements increasing by more than 30% in both these years, compared to an average growth of 18% in the preceding five years.

Similar to the rapid growth in international outbound travel by Maldivians, economic growth and the increased levels of income have enabled Maldivians to increase their inter-atoll travels. Moreover, the rapid development of domestic airports and the promotion of low fares, especially during festival and school holidays, have spurred this growth.

With regard to the passenger movements classified by destination, the most number of passengers are recorded to have travelled to Addu atoll via domestic airlines. On close to, 40% of all passenger movements were made to Gan International Airport during the past decade. Nonetheless, the establishment of new regional airports is likely to pave the way for increased passenger movements to other atoll hubs as well, especially driven by the demand from the tourism sector, as more resorts are being leased out in far-off atolls. Quite notably, the increase in passenger movements to ADh. Maamigili is largely tourists, with Alifu Dhaalu atoll having 17% of total bed capacity of the tourism industry (only second to Male' atoll, having 40%).

The expansion in the commercial airline services has also resulted in a shift in the market composition of passenger movements as well. Thus, while Maldivian Airlines accounted for 15% of all domestic aviation passenger movements between 2001 and 2005, this has increased significantly to 26% in the past five years. The establishment of new airports has hence enabled domestic airlines to expand its target market and cater for a higher number of tourists, encouraging greater competition between the major players.

Challenges to the Industry

While being one of the most rapidly developing sectors of the Maldivian economy, the transport sector continues to face a number of challenges. Most significantly, the heavy reliance of domestic aviation on the tourism sector makes it extremely vulnerable to external shocks that affect tourism. As a result, operators in the industry find it difficult to offset declines in tourist passenger movements by shifting towards local tourists. This is because the volume of demand

from the local population is too low or insufficient to support the industry, which is a common constraint faced by other industries in the country as well.

Within the domestic aviation sector, there is also increased concern about the emergence of the monopoly in the seaplane operations and its effect on prices. The recent decision by Maldivian Airlines to enter the seaplane industry however, is likely to encourage more competition within the sector. As the sector is closely linked to tourism, it is also essential that development plans for the transport sector is aligned with national development goals. As such, the Third Tourism Master Plan (2007) called for integration between the Tourism Master Plans and other government plans, especially the Transport Master Plan.

With regard to challenges faced by the companies operating in the sector, according to the Quarterly Business Survey conducted by the MMA in 2013, businesses in the transport sector face difficulty in raising finance to expand their operations. Factors such as difficulty and high cost of obtaining finance as well as insufficient demand were highlighted as significant factors that hinder the potential of the business activities of these companies.

However, further research is required to fully capture and understand the opportunities and challenges faced by the industry.

Conclusion

The transport sector is an important sector to the economy of the Maldives, especially due to its close linkages with tourism and its vital role in enabling accessibility in a widely geographically dispersed nation. Its contribution to GDP also remains significant, being the fifth largest industry driving the economy. Recent changes in the industry including the opening up of new regional airports and the introduction of new domestic airlines have brought about significant changes to the dynamics of the industry. Along with the expansion of the industry, there still remain a number of challenges that constrain the development of the industry.

Nevertheless, with the growth of tourism in Maldives – both local and international – there is an increasingly significant role of the domestic aviation industry. The brief analysis of domestic aviation is presented in this article also highlights the importance of further research in the industry in order to better understand its dynamics.

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