

ENHANCING NIGERIA'S AIRPORT OPERATIONAL EFFICIENCY THROUGH AIRPORT CONCESSIONING: LESSONS DERIVED FROM AIRPORT OPERATIONS IN THE DEVELOPED COUNTRIES

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Abstract - This paper is aimed at examining concessioned airports in the developed countries with the view to identifying how concessioning has positively impacted the growth and development of those airport operations for the purpose of recommending the derived lessons for Nigeria airports to realizing airport efficiency.

Keywords : Airport, concessioning, and airport concessioning.

INTRODUCTION

Aviation plays a vital role in facilitating economic growth, and offers numerous economic and social benefits. It provides the only rapid worldwide transportation network, effectively supporting global business and tourism (ATAG, 2008). It offers countries, especially developing ones, the opportunity to facilitate trade and enable linkages in the global supply chain (The 2015 Domestic Aviation Industry Customer Satisfaction Survey Report). A viable and stable air transport industry is critical to integrating the nation into the developed economy.

Air Transportation is the movement of passengers and freights by aircrafts. It is a transport system that involves the movement or carriage by air of persons or goods using airplanes and helicopters (WIE, 2011). It has become the primary means of common carrier traveling. Greatest efficiency and value are obtained when long distances are involved and high value payloads are moved, although, the time and cost efficiencies obtained decreases as distances traveled is reduced, air transport is often worthwhile even for relatively short distances. It also provides a communication link, which is sometimes vital, between the different groups of people involved (WIE, 2011).

Airports are terminal that acts as the interchange or interface between road and other transport modes. According to ICAO in Adeniran (2014), an airport (or aerodrome) is an area on land or water (including any buildings, installations and equipment) intended to be used either wholly or in part for the arrival, departure and surface movement of aircraft. According to ACRP Synthesis 48 (2013), airports are vital national resources which serve a key role in transportation of people and goods and in regional, national, and international commerce. They are where the nation's aviation system connects with other modes of transportation and where federal responsibility for

managing and regulating air traffic operations intersects with the role of state and local governments that own and operate most airports.

The development of aerodromes for the facilitation of the operation of airports in Nigeria began in the 70s. By 1976, Nigeria had thirteen airports, one in each state and Federal Capital which was Lagos. These airports were maintained by the department in the Ministry of Transport called Public Works Department (PWD). In 1965, Government created a depart known as civil Aviation Department (CAD) to handle the maintenance of the airports and runways. In 1976, government established Nigeria Airports Authority (NAA) under decree 45 and vested it with the responsibilities of managing and maintaining the airports and facilities except navigational aids. On August 31st, 1985, the federal military government created the Federal Airports Authority of Nigeria (FAAN) as a result of the Civil Aviation Reforms which brought about the merger of the Nigeria Airports Authority (NAA) and the Federal Civil Aviation Authority (FAAA) (FAAN SERVICOM, 2009).

The magnitude, scope and persistence of failure of Nigeria's Public Enterprises (PEs) including the airports became alarming as these enterprises required continuous massive subsidies but delivered only intermittent and substandard services. The returns on these large investments were generally poor, and in some cases negative, with an especially low rate of return relative to the large amount of resources invested in them (Jerome, 2008; Oghojafor and Alaneme, 2012). Net outflows from the government to the public enterprise sector were estimated at US\$2 billion annually (Jerome, 2008).

All these pointed to the inefficiencies of the public enterprises of which the airports are part of. The reasons for the poor performance of Nigerian airports and other public enterprises from history tend to have a uniform pattern

globally and range from the presence of conflicting and interwoven roles determined by politicians, prevalence of uncompleted contracts and subsidies from government. These more or less aid internal inefficiencies, issues of excessive bureaucratic controls, to government interference and intervention, and other public service culture of undermining and compromising efficiency and optimum productivity (Jerome, 2008; Ogunsiji and Ogunsiji, 2010).

Recently, with globalization and the current economic recession, government realized it lacked the resources (man, material, money and machinery) and technical knowhow to operate a modern airport successfully. In most developed countries like South Africa, Brazil, United States of America and others, governments and airport authorities have withdrawn from airport operations having the conception that enterprise-based airport services and operations would allow for greater flexibility, effectiveness, efficiency, excellent services and customer satisfaction. As a result of this, Nigerian government and airport stakeholders are considering the adoption of airport concessioning as a way out of crisis situation.

LITERATURE

Airports in South Africa are the best airports in Africa, this can be attributed to the fact that those airports are concessioned. The concessioned airports in South Africa and some other airports in Africa are managed by Airports Company of South Africa limited (ASCA). Concession is a process whereby the concession grantor gives the right to operate a facility and/or deliver a service of public interest to a merchant concessionaire, against the commitment assumed by the concessionaire to build and manage the subject of the concession or to manage the delivery of service at the concessionaire's own risk (Tsvetkov, 2010). Airport concessioning is defined as a business located on an Airport that is engaged in the sale of consumer goods or services to the public under an agreement with an Airport, another Concessionaire, or the owner of or Lessee of a terminal (Airports Council International, 2016).

Most airport infrastructures in Nigeria required considerable rebuilding and restoration. This entailed massive external financial support which the federal government was unwilling to provide due to the present economic recession, existing corruption and operational inefficiencies. The Nigerian Airports and many other public corporations were also believed to have complex institutional management structure with stiff bureaucratic bottlenecks. In a bid to address some of the clear and immediate problems such as delays, high charges, the Federal Minister of Aviation introduced airport concession to some of the airports in the country (Lagos, Kano, Abuja and Port-Harcourt), to bring in needed expertise in the area of operations and technical-knowhow.

AIRPORT MANAGEMENT IN NIGERIA

Airports in Nigeria is been managed by Federal Airports Authority of Nigeria (FAAN). This body is responsible for the management of all commercial airports in Nigeria through the provision of services to passengers and airlines. It is a parastatal of the government, under the supervision of the Federal Ministry of Aviation. FAAN generates revenue for operations through aeronautical and non-aeronautical sources such as landing fees, parking fees, rents, concession fees and utilities fees. One of its main functions is to develop, provide and maintain airports, necessary services and facilities for safe, orderly, expeditious and economic operation of air transport (Federal Airports Authority of Nigeria: What We Do).

OWNERSHIP, MANAGEMENT AND OPERATIONS OF AIRPORTS

According to Ken (2011), there are four ownership and operation schemes for airports:

1. Public ownership and operation;
2. Regional ownership and operation;
3. Public ownership and private operation; and
4. Private ownership and operation.

Public Ownership and Operation

This is the first model and is common in Africa. Like governments of poor countries in other regions, the governments of countries in Africa often consider airports to be public infrastructure that provides revenue and foreign currency. Even if the airport is corporatized (as in the case of the Airports Company South Africa), the state retains majority ownership (Ken, 2011). However, even airports with operational surpluses fail to undertake necessary maintenance and reinvestment (Button, 2008). The success of this model is thus questionable (Ken, 2011).

Regional Ownership and Operation

Regional ownership is most common for secondary airports and is often used by central governments to remove less profitable airports from the national budget. It is also found in federal countries, especially those with strong airport markets, such as the United States of America. This form of ownership is unlikely to benefit regional airports in poorer countries with weak provincial government systems and is therefore generally inappropriate for Africa (Ken, 2011).

Public Ownership and Private Operation

There are several models for public-private partnerships (PPPs): joint ventures, partial and majority divestitures, management contracts, and concession contracts. The few recorded attempts at PPPs in African airports have occurred in markets of all sizes:

- a. Cameroon: This is a small market that serves below 1 million seats a year;

- b. Tanzania: This serves more than 1 million seats a year (an average size for the region); and
- c. South Africa: This is the largest market in Sub-Saharan Africa (Ken, 2011).

Cameroon was the only country in the region with a management contract covering a system of seven airports owned by the Aéroports du Cameroun. Its major stakeholders were Aéroports de Paris, with 34 percent, and the government of Cameroon, with 24 percent (the remaining stakes were shared by other carriers and a bank). But when Aéroports de Paris failed to meet the agreed-upon requirements for funding the Douala International Airport rehabilitation in 2004, the government took over its share. This model has thus also proved less than perfect (Ken, 2011).

The majority of private participation in African airports is through concessions. Under a concession agreement, the government continues to fund infrastructure investment while the concessionaire assumes responsibility for service provision. This arrangement allows private firms to offer specific services, such as SwissPort's passenger counter services in Johannesburg and Dares Salaam and private contractors' cargo-handling functions in lesser-known airports, such as Mwanza in Tanzania. Contract bidding occurs in regular cycles, and terms vary from airport to airport (Ken, 2011).

Private Ownership and Private Operation

Concessioning of specific services is a well-developed model in airports throughout the world, and may be the most appropriate and sustainable form of PPP for Africa. Full privatization is rare among airports and is generally attractive only for airports with substantial passenger traffic that is potentially profitable. One example is that of the British Airports Authority, which owns the three main London airports (Heathrow, Gatwick, and Stansted) as well as the three main Scottish airports (Edinburgh, Glasgow, and Aberdeen) (Ken, 2011).

However, it has been argued that because of the authority's monopolistic nature, airport charges have soared, service quality declined, and reinvestment in basic airport infrastructure has been insufficient (Osborne, 2007). Following an inquiry by the UK Competition Commission, the authority was required to sell off Gatwick, Stansted, and either Glasgow or Edinburgh. The Airports Company South Africa, which owns 10 airports in South Africa, appears to follow this model. In practice, however, the company is controlled by the government of South Africa. Meanwhile, the privatization of complete airports is slowing worldwide; noticeably fewer transactions occurred in 2007 than in the immediately preceding years (ACI 2008). This trend is likely to continue (Ken, 2011).

AIRPORT CONCESSIONING

Airport concessioning has been in existence in the developed countries for almost thirty (30) years. Despite the fact that it

has been in existence for long, it is a new idea in Nigeria although South Africa has embraced it since the year 1993 till present. It is quietly obvious that the best three Airports in Africa (2016 Skytrax ranking) are among the Airports concession in South Africa. The concession airports are managed by Airports Company of South Africa limited (ASCA).

Airport concessioning is a business located on an Airport that is engaged in the sale of consumer goods or services to the public under an agreement with an airport, another concessionaire, or the owner or lessee of a terminal. It is also a business conducting one or more of the following activities, even if it does not maintain an office, store, or other business location on an Airport, as long as the activities take place on the Airport: management contracts and sub-contracts, a web based or other electronic business in a terminal or which passengers can access at the terminal (Airports Council International-North America, 2016).

The effective overall capacity of an airport is determined by the facilities with the lowest capacity; such facilities may be airside (such as runways and airport parking space) or landside (such as terminals). Airports with higher traffic volumes generally have higher quality airside infrastructure. In Africa, main hubs, such as Johannesburg and Nairobi, have adequate airside infrastructure, including standard runway length and Instrument Landing System (ILS) (Ken, 2011). In West Africa, Murtala Muhammed International Airport (MMIA) is the main hub. The airport is rather considered to be effective but not efficient due to the fact that the infrastructures are inadequate. According to Ken (2011), lower quality infrastructure is much more prevalent among airports with low traffic volumes (below a million seats per year).

Airport landing charges are high in Nigeria, although the charges vary considerably by airport and aircraft size. Comparison of charges for three aircraft types across 15 airports in Sub-Saharan Africa and 3 in North Africa with FraPort in Frankfurt, Germany, shows that charges at Sub-Saharan African airports were on average 30 to 40 percent higher than at FraPort, while those in North Africa were comparable or lower. Charges were particularly high in Cameroon, Côte d'Ivoire, and Ghana, but even adjusting for those outliers, they averaged 29 percent higher at African airports (Ken, 2011).

The discrepancy increases dramatically with aircraft size suggests that airports charge intercontinental travelers more, perhaps to generate foreign currency revenues. In some cases, passenger fees exceed \$80 per passenger. On the other hand, airports in Sub-Saharan Africa rarely have other sources of revenue, such as shopping, car rentals, and duty-free concessions, which contribute a large proportion of overall airport revenues in industrialized countries. The higher charges in the region are therefore unsurprising (Ken, 2011).

Concessions were born out of the needs for one reform or another. Concession may be considered analogous to public private partnerships (PPPs) and Private Finance Initiatives (PFIs) and or seen as an arm of privatization (if defined broadly). Privatization of state-owned enterprises (SOEs) has become a key component of the structural reform process and globalization strategy in many economies (Jerome, 2008). It gained popularity in recent times but is an old innovation as it was practiced by the French government as can be seen in the water project of 1776 (Idornigie, 2006; Oghojafor and Alaneme, 2012).

Concessioning of airports in the developed countries has generally improved their performance. Sustaining the improvements will depend critically on addressing a range of observed defects in the way concessions are designed and managed in its pricing policies. Although, concessions in the impoverished countries are unlikely to be financially attractive to traditional operators and instead appeal to private companies that can secure financial benefits not directly linked to the operations.

OVERVIEW OF AIRPORT CONCESSIONING IN THE DEVELOPED COUNTRIES

The changing perspective of airports from public utilities to businesses is coupled with a shift to move airport governance from public to more private sector participation. The move to privatization has been motivated by a number of factors (Gillen, 2011). The UK was the first to privatize a subset of airports beginning in 1987. Since the British Prime Minister Margaret Thatcher's government privatized the former British Airports Authority; airport privatization has become a global phenomenon. Governments in Europe, Asia, Australia and New Zealand, Latin America and the Caribbean subsequently privatized major airports. By the end of 2010 a study by Airports Council International (ACI) Europe found that 22% of Europe's 404 principal airports were either wholly investor-owned or had mixed (public/private) ownership (Airports Council International Europe).

Elsewhere in the world, the primary mode of privatization has been via a long-term lease or concession. Some of the larger privatized airports have acquired full or partial ownership interests in other airports. This process has created a global airport industry, with significant investment recently coming from pension funds and infrastructure investment funds (Robert, 2014).

In the research conducted by Robert (2014), the world's 100 largest (by revenue) airport groups were examined. Of these 100 largest airport entities, the 38 of them are either fully or partially owned by investors (or were in the process of becoming so, as in Spain and Portugal as at year 2012). Some of these global airport groups also manage overseas airports, on a contract basis, without actually obtaining an ownership share.

The global airport industry is dynamic, with a number of changes in ownership during 2013, especially in the airports

divisions of Spanish company Abertis and German company Hochtief, as well as Ferrovial's stake in London's Heathrow Airport. The largest airport privatization activity in 2013 continued to be in Europe and South America (Robert, 2014).

India in recent years has used long-term concessions to upgrade and modernize the existing airports of New Delhi and Mumbai and to create new ones at Bengaluru and Hyderabad. In these concessions, the Airports Authority of India (AAI) retains 26% of the concession company, leaving majority control with investors. These arrangements have enabled two Indian firms, GMR and GVK, to become global players in airport privatization (Robert, 2014).

Ever since 2008 the government of South Korea has been talking about privatizing the large new Incheon International Airport serving Seoul. Meanwhile, it should be noted that Incheon International Airport is presently the top performing airports to be the providers of excellence in customer service in the world as rated by Skytrax, 2016. Robert (2014) states in his research that in 2009, the announced plan was to sell a 49% stake via an initial public offering of shares, but no time frame was given. The proposed sale has turned into a controversial political issue.

The evidence then suggests that governments have preference for elimination of (costly) regulation. As an increasing number of governments are moving to privatize airports, a question emerges: under what circumstances can a shift to privatization take place without, or minimal, loss of economic welfare? In the UK where all airports have been privatized except Manchester, even small airports with a small amount of scheduled air service are profitable (Starkie, 2008). Thus, concession services play an important role in sustaining airport viability. Government, in principle, is concerned with the economic welfare from aeronautical services. Although the convention in the current literature is to assume that consumption of concession services carries positive welfare effects, in our view the value of non-aviation services can vary from near zero to some positive value (Starkie, 2014).

RECOMMENDATION AND CONCLUSION

For a developing country like Nigeria, airport concessioning should be considered as major tool to enhance airport efficiency, although might be criticized by the airport employees, it is therefore recommended that a particular section of the airport infrastructure (landside, terminal building or the airside) should be concessioned, after which the performance of such concessioned infrastructure will enhance the concession of the entire airport infrastructure in the long-run.

Finally, according to Mohammed (2008), the airport concessioning enhances the increase efficiency in airport operation; decrease cost of airport services to stakeholders; decrease cost to the government for the support of airport sector; and attract private sector

participation so as to free public resources for public services.

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