

Air Transport Symposium in Nigeria
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Trends and developments in
commercialization and privatization
of airports and air navigation
service providers (ANSPs) in Africa

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Coverage of the presentation

- ✓ Background
- ✓ Ownership, governance and control
- ✓ Trends in commercialization and privatization
- ✓ Performance measurement and benchmarking
- ✓ Implementation of ICAO's policies
- ✓ Other challenges
- ✓ Conclusions

Background

ANSCConf 2000

- Chicago Convention
- Developments in commercialization & privatization of service providers
- ICAO's policies on charges (Doc 9082)
- Guidance material in the economic manuals (Doc 9562 & Doc 9161)

Ownership, Governance and Control

- Reforms in airport/ANS governance and control geared towards ensuring benefits for stakeholders in the Aviation Industry.
- Organizational formats:
 - Government owned entity
 - Public-Private Partnership (PPP) based entity
 - Private entities.

Commercialization and Privatization

■ Commercialization

- An enterprise restructuring activity and an approach to the management of facilities and services in which business principles are applied.
- Re-organize and restructure public enterprises with a view to turning such businesses into profit-making commercial ventures without government subsidy.

Privatization/PSP/PPP

- Privatization – Full or majority ownership of facilities and services by the private sector.
- PSP – Private sector plays a role, but majority ownership remains with government.
- PPP – Ownership and management structure having both private and public sectors participating

Trends in Commercialization and Privatization of Airports and Air Navigation Services

- Most Governments provide ANS through autonomous entities
- Motivating Factors for privatization of airports include:
 - Pressing social demands
 - Private sector as a source of revenue to cover/reduce budget deficits
 - The emergence of a global airport management industry

Trends and developments in Nigeria

- The Nigerian Airport/ANS System
 - Shift of Government approach:
 - Airports now regarded more as commercial entities rather than public utilities.
 - Untapped opportunities exist in airport services and infrastructural development through PPP.
 - Nigerian airport system comprises 20 government-owned (public-use) airports, 4 private airstrips and several government airstrips.
 - FAAN is charged with developing, operating and maintaining the 20 airports (4 are international)

The Nigerian Airport/ANS System

- Government encouraging and promoting PPP in provision of airport services.

Examples:

- Building/rehabilitation of the domestic terminal of Lagos Murtala Muhammed Airport (including a 4-star hotel and a conference centre) by Bi-Courtney on a BOT arrangement
- The planned leasing/concessioning of Nnamdi Azikiwe International Airport, Abuja;
- Plans to upgrade, rehabilitate, or build, manage and operate, on a BOT basis, facilities at the Port Harcourt, Malam Aminu Kano, Ilorin and Calabar International Airports.

The Nigerian Airport/ANS System

- **Untapped opportunities in private sector investments, such as in:**
 - Hotels/Office complexes/Conference halls
 - Aircraft maintenance facilities (hangars)
 - Cargo complexes /warehousing
 - Aviation fuel depots/Petrol stations
 - Flight catering
 - Duty free shops/Shopping malls
 - Car park development and management
 - Ground transportation (e.g. taxis, shuttle buses)
 - Tourist attractions; and

 - **Construction of runways, taxiways, aprons,**
 - **Construction and management of power projects, helipads, etc.**

The Nigerian Airport/ANS System

Ownership structure of the private airstrips in Nigeria.

- The airstrips:
 - Osubi, owned and operated by the Shell Petroleum Development Company, a joint venture with NNPC;
 - Escravos, owned and operated by Chevron; and
 - Eket and Bonny Airstrips, owned and managed by Mobil.
 - The Port-Harcourt Air Force Base is a military airstrip, though originally designed for civil aviation.
- Osubi Airstrip operates both private and commercial flights on a "prior authorization" basis only.
 - It is a very critical component of the Nigerian national airport system
 - It has tremendous commercial potentials in airport concessions in view of the level of patronage it enjoys.

The Nigerian Airport/ANS System

Peculiar ownership structure of the private airstrips

- Need for acquisition of superior management skills at those private airstrips.
- **Nigerian air navigation services**
 - NAMA is the sole provider, wholly owned by the government.
 - It is commercialized, to some extent,
 - It is sustained with income mainly from user charges, and subsidy through a portion of ticket sales charge.
 - The Agency also receives (guaranteed) loans from government.

TRENDS AND DEVELOPMENTS IN AFRICA

Growing commercialization of ANSPs.

- As of 2005, over 40 States had commercialized their ANS functions to various degrees, with capacity to finance new large facilities and technology.
- A typical example of an ANSP with private sector ownership is the Air Traffic and Navigation Services Company of South Africa (ATNS):
 - Corporatized in 1993, but ownership remains with the government of South Africa
 - Has some degree of commercialization in the delivery of air navigation services.

TRENDS AND DEVELOPMENTS IN AFRICA

- Examples of Private Sector Participation (PSP) in airports development and management in Africa include those of South Africa, Egypt, Tanzania and the ASECNA region (Cameroon, Cote d'Ivoire, Togo, Mauritania, Gabon and Madagascar).

Need for Performance Measurement and Benchmarking in a Commercialized/Privatized Environment

- ICAO has noted the importance of performance measurement as an essential tool for service providers, regardless of the form of governance and ownership.
 - It is an essential element in economic oversight,
 - African States should encourage their airports and ANSPs to develop performance measures, in consultation with users; and
 - They should apply indicators to four key performance areas namely, safety, quality of service, productivity and cost-efficiency.

Implementation of ICAO's Policies on Charges for Airports and Air Navigation Services

- Instances of poor application or outright absence of implementation of the ICAO policies and guidance on charges :
 - Significant increases in airport and/or air navigation service charges implemented without proper, or any, consultation with users;
 - Increases in charges are made without justification;
 - Lack of transparency in the presentation of financial information to users;
 - Airports and air navigation service charges are mostly not cost-based as providers use a revenue target-oriented approach in their charging.

Raising the awareness & implementation of ICAO's Policies on Charges for Airports and ANSPs

Recommendations under consideration at ICAO include:

- Making Policies better known to States and service providers:
- Educational initiatives in the form of training courses on ICAO's policies on charges:
- Regional workshops on the economics of airports and air navigation services in all world regions; and
- Other innovative ways to promote ICAO policies: a flyer summarizing the salient features of the Policies, and making policies and guidance material available online, etc.

Other Challenges in a Commercialized and Privatized Airport Environment in Africa

- Price Regulation: The approach of most airports and ANSPs in Africa in setting prices/charges is, mostly, not in compliance with the ICAO's policies and principles on charges.
- The Price Cap system of price regulation comprises two popular versions viz, the Single till and Dual till.
- Under the Single till system,
 - Regulated aeronautical charges are determined using both aeronautical and commercial revenues and costs
 - Revenues from commercial activities cover deficits incurred in the provision of aeronautical services

OTHER CHALLENGES

- In the case of the Dual till regime,
 - the costs of only aeronautical services are taken into account while determining price cap
 - the aeronautical and commercial components of the airport's operations are separated and regulated aeronautical charges are determined such that costs incurred in the provision of aeronautical services are completely covered by aeronautical revenues.

OTHER CHALLENGES

- Dual till system often results in higher airport charges,
- Single till system, though with lower aeronautical charges, may lead to reduced investment in airport infrastructure in the long term, unless the huge revenues from non aeronautical activities are retained by the airport.
- Single till system tends to be favoured at non-congested airports as it tends to yield higher social welfare.
- Under the Dual till regime, there is an attempt to balance the demand and supply of services at an airport, hence it is appropriate at congested airports.

OTHER CHALLENGES

- Price cap regulation of airports tends to lead to strong incentives to reduce operating costs, which may result in reduced service quality; hence the need for service quality monitoring by regulators.
- African States should therefore choose a price capping scheme that will benefit both consumers and the regulated airport/ANSPs.

OTHER CHALLENGES

- *Management of Unviable Airports*: The private sector is attracted to only the viable airports.
- Why are private investors not attracted to the unviable or less viable airports despite that there is existing capacity?
- And why are governments not offering them for concessioning?
- In the Nigerian case for instance, private investors are not showing interest in airports at Ibadan, Akure, Minna, Jos, Benin, Enugu, Owerri, Maiduguri, Yola, etc, since they are not viable, with no or very limited commercial activities going on there.

OTHER CHALLENGES

- In Africa, privatization of unviable airports exceedingly difficult due to their salient features, which include:
 - Loss-making
 - Outdated infrastructure
 - Inadequate ground handling systems and night landing facilities
 - Poor passenger amenities
 - Low passenger/cargo traffic
- Unviable airports sometimes serve social obligations of providing nation-wide connectivity rather than presenting profitable investment opportunities.
- Unviable airports do not generate enough revenue to meet their operational costs, and consequently, airports authorities may not be in a position to upgrade these airports.

OTHER CHALLENGES

- Financial support is therefore necessary to develop and maintain the unviable airports.
- Governments should develop objective and transparent criteria for selecting from the unviable airports that need to be supported financially, and through PPP, encourage better utilization of existing capacity through incentives.

Conclusions

- Where airports and ANS are commercialized and privatized, African States should impose economic oversight to prevent the service providers from abusing their market power, which is monopolistic in many cases.
- Regardless of the ownership and governance structure of airports/ANSPs, States should ensure that service providers observe all relevant obligations as stipulated in the Chicago Convention and its Annexes.
- Airports and ANSPs in developing countries of Africa need to increase awareness of ICAO's policies and guidance, as well as the commitment of their governments to implement those policies.
- Regulators need to set up a proper consultation process between service providers and users regarding charges and infrastructural development.

Conclusions

- The most suitable price regulatory regime for (the monopolistic) airports/ANSPs in Africa should be chosen, taking into account,
 - the best incentives to encourage investment
 - the way commercial revenues are treated; and
 - Establishment of standards of service.
- Finally, we need to re-position the unviable airports with a view to attracting private investments; in this regard, governments should encourage and motivate private investors through PPP, towards financing, operating and managing unviable airports with a view to bringing them to a position of viability.

Thank you for your attention