

OPTIMIZING OPPORTUNITIES FOR AIRFREIGHT
IN NIGERIA
PORT OPERATOR'S PERSPECTIVE

PRESENTED BY

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AT THE

ONE-DAY SENSITIZATION SEMINAR
ORGANISED BY
AIRFREIGHT STAKEHOLDERS FORUM OF THE NIGERIAN
SHIPPERS' COUNCIL

THURSDAY 24TH AUGUST, 2006

INTRODUCTION:

Distinguished ladies and Gentlemen,

There is no better time than now and better group to discuss this paper with than this assembly. The choice of the subject "optimizing Opportunities for Airfreight in Nigeria": Federal Airports Authority of Nigeria's perspective as port Operator is very relevant.

Without doubt, the issue of FAAN charges and the quality of services derivable at our Airports are two issues that are germane to the theme chosen for me to speak on.

These twin issues are in fact at the front burner of business at the airport and are largely perceived to affect opportunities for Airfreight one way or another. It would therefore not be misplaced that once you are satisfied on my submissions on these issues, I would have discharged substantially my duties on the subject, and others not so related would dim in comparison.

In doing this, I shall limit myself strictly to the rules, (both Domestic and International) guiding our business practice at the port and the thrusts of Government policy in this respect.

The enabling law setting up the Federal Airports Authority of Nigeria established the organization as a service organization empowered to build, manage and maintain all airport facilities for safe, efficient handling of aircraft, passengers, cargo and mails in a profitable and customer friendly atmosphere. Our primary responsibility therefore is to provide infrastructural facilities, maintain them, facilitate smooth movement of passengers and freight and collaborate with other security agencies at providing security at the Airports. The second and no less important aspect of our responsibility is to carry out economic/commercial activities within the air transport system in such a manner as to make possible the first leg of providing adequate infrastructure. In order to ensure that this

aim is achieved the law empowered FAAN to carry out at airports, all such economic activities as are relevant to air transport and generally to create conditions for the development in the most economic and efficient manner air transport business and other related thereto.

The functions confer authority on the Federal Airports Authority Of Nigeria to carry on these business either directly or through accredited agent or partner. This right is therefore exercised in form of concession to all persons carrying on business at the Airports which the Authority is to do directly. It is on the basis of this provision that the Authority as port operator is entitled to a return of all air transport business carried on at the airport as allowed by FAAN provided that the professional is duly accredited by the relevant regulatory body (NCAA, NIPOST or Customs Dept). The Authority therefore has inherent power to seek for accreditation from these regulatory bodies to carry on this business by itself (as we have done in the past by operating Duty free shops and limousine services) or grant this right to others upon due certification by the regulatory bodies. Airfreight business is clearly one of such business contemplated by this law.

However we concede that wherever authority is given, it is with commensurate quantum of responsibility. We owe to our concessionaires, the responsibility to provide an enabling environment for business through such concession so as to guarantee a mutually beneficial relationship.

In view of this, the present FAAN Management on assumption of office was immediately saddled with responsibility of providing an enduring foundation for private/public sectors partnership in infrastructural facility provision and maintenance, and development of business as port operator for easy movement of revenue load at the airports.

AIRPORT LAND USE PLAN

Government has appointed a consortium of planning professionals to provide land use plans for the major airports MMA, Abuja, Port Harcourt and Kano. The exercise which will be concluded in three months would provide us professionals and coordinated basis for development within our main airports particularly the vase and under develop and mass at the

cargo terminal. This is a bold effort of the current Administration which is directed at correcting a major planning omission of many decades.

PREFERENCE OF AIR FREIGHTING OVER MODES

We are in the Airfreight business together. The failure of any of our clients is the failure of the Federal Airport Authority Of Nigeria. This does not however mean that the Air freight business or any aviation is an all comers affair.

Air travel has revolutionized global transportation by dramatically reducing the time needed to travel long distances across nations and oceans that might have taken weeks or months can now be achieved in a matter of hours. This has made air freighting a major part of the world's transportation system.

Air freighting offers advantages in the following areas:

- a) Speed of transportation
- b) Business enhancement
- c) Export/Import of perishables and high value commodities
- d) Tourism among others

In spite of the above mentioned advantages, it is important to note that on short haul routes of up to 1,000 miles, air transport does face significant competition from other mode of transport.

However, on medium and long haul routes, the speed of air transport confers on it an advantage over land surface and over-water mode of transportation. This advantage is not diminished in spite of the substantial rate differential in favour of surface and over water transport.

NEED FOR COMMERCIAL MANAGEMENT OF AIRPORT

Airport business is not only hi-tech but capital-intensive. Due to the years of neglect of our Airport, huge funds and investment are now required to develop facilities needed at the airport and upgrade existing ones.

Maintenance and operation of these facilities equally require huge fund.

Consequently, airports need to earn sufficient revenue to cover both operating cost and provisions for depreciation/renewal of assets and for building reserves for future expansion.

In meeting the challenges of service delivery and the changing nature of airports, it is evident that the public expectation cannot adequately be met as long as the traditional airport ownership and management system remain characterized by public sector. All over the world the trend is toward private sector and global players involvement. As we have observed in the telecommunication sectors, service delivery is taken to an unprecedented height when such fundamental changes are allowed.

It is therefore the intention of Government that airport be operated on a concession basis. At the largest Italian Airports (e.g. Venice Milan) companies with public (usually local) shareholdings and perhaps some private shareholding as well held the operating concession for a long term period such as 60 year. The concession could cover management of the total airport and handling services (e.g. Milan, Turin) or just some of the service as terminal management (e.g. Palermo).

At home, the construction and concessioning of the Domestic Terminal under BOT arrangement is evident that the private sector participation is also gaining grounds in aviation in Nigeria.

Adverts have similarly been placed and invitation solicited from interested persons on warehousing and other freight related business nationwide. The Government is therefore challenging persons interested in investing in the Air Transport in general and Air freighting in particular to avail themselves of this opportunity/effort at liberalizing business in the sector.

As a short term measures, the Federal Airports Authority has restructured its Directorate of Commercial and Business Development to include Service Quality Assurance as well as Route Development Units to ensure optimum quality service is delivered by all departments and that our customers enjoy increased opportunities in Air freighting.

AIR TRANSPORT PRINCIPLES, DOMESTIC & INTERNATIONAL FREIGHT CHARGES

The international carriage of revenue load as we all know means the carriage of passengers, cargo or mail for remuneration between two points located within two different states. This privilege is governed by the privilege of the air. Just as the freedom of the sea relates only to the sea i.e. outside territorial water, so do freedoms of the air relate only to the airspace that is not above national territory. The freedoms or privileges (seven in number) exist as exchanges granted by the states.

The Chicago Convention of 1944 adopted the principle of absolute sovereignty of the state over its territory. These privileges and charges granted and imposed apply on both scheduled international air service and non-scheduled international transport operation.

However, differences exist between the instruments of obtainment of these privileges. While scheduled international air service has among Air Transit Agreements of 1944, the privileges in relation to non-scheduled international air transport operations are generally by the "unilateral action" of the states concerned and in accordance with their own national law and regulation. Cargo flights into the country fall under the category of non-scheduled international transport operation and this explains their payment of royalty to the Government and over exposure to domestically evolved charges.

CHARGES – ICAO Document 8632 defines charges as "levies imposed to defray the cost of providing facilities and services for civil aviation."

Different Types Of Aeronautical Charges

CATEGORY A

These are charges that have direct effect on the user. They are in conformity with the provisions of Article 15 of ICAO Convention on Airports and similar charges. These charges are easily comparable with similar charges in other countries in accordance with ICAO Document 7100 (Manual for Airports & Navigational Facilities Tariff). The charges are better developed in scheduled international transport operation in Nigeria.

Category A charges are the main sources of revenue for the Authority and agencies: They include 5% ticket sales charges; overfly charges; enroute charge, landing and parking charge; passengers service charge and fuel surcharge.

CATEGORY B

Category B are sundry charges that evolve from the statutory functions of the Authorities/agencies. While similar charges may or may not exist in other countries the rate and charges are often determined by national economic indices of the individual countries.

The charges include port charge; personnel licensing fines for violation of airspace; Air Traffic Control licensing among others. Cargo flights are largely non-scheduled flights in Nigeria.

PRINCIPLES AND LIMITATION OF CONSULTATION ON FIXING OF CHARGES

It is increasingly being recognized that in charging fees, there should be a fair measure of consultation between the Airport Authority and the user agencies concerned. It is swan song by airlines these days that the landing and parking fees as well passenger service charge by the Authority are high and non competitive within the region. The preliminary report from a study on charges within the region and continent confirms that the PSC in Nigeria Comparatively lower than Ghana, Cote D'ivoire, Kenya and Senegal Airport these Airports charge equivalent of \$58.47, \$40, and \$35.07 respectively compared to Nigeria's \$35. In all modesty we know how facilities in these counties compare with ours.

Why one may admit that the same is not true of cargo charges, other airport charges such as Airport Improvement Fee, Security Screening Charge, Rescue and Fire Fighting Charge among others are charge prevalent on other airport but not imposed on cargo and passengers operators in Nigeria.

On the points of consultation between airports and other stakeholder regarding the determination of charge, it should be stated that consultation dose not thrive in our environment of client belligerence and the use of uncouth and uncivil language directly or by our customer's

agent. Some of our customers and their agents even assert this consultation process as a right rather than recommended practice for business. They descend to the lowest ebb of blackmail and passing cheap and derogatory comments on the Authority's or her duly accredited concessionaire.

Other even declare that they would breath public peace and deny the Authority of her statutory source of revenue generation and collection.

We urge that such person should appreciate that business thrives in an environment of respect for the law. It is convenient for agent to impress his principal by playing to the gallery, but real businessmen should not spend hard earned income on provocation of violence and breach of public peace.

Consultation on fixing of charges would only work when both parties choose to be guided by facts and best professional practice in the industry.

Port operators and concessionaires are expected to are on port charge at the airports. Where, however, both parties are unable to agree on a particular charge, even the Airport Council International in its Policy Handbook Third Edition of 2000 recommends that Airport should proceed to charge on what the Airport operator is convinced would return optimum benefits to the Airport.

This practice is predicated on the principle that user shall ultimately bear full and fair share of the cost of providing the airport facilities and services and that under favourable circumstances, airport may produce sufficient revenues to exceed, by good margin, all direct and indirect costs (including general administration e.t.c) and to provide for retirement of debt and reserves for future capital improvements.

It is also recommended that all airport user including Government agencies pay for the services enjoyed at the airport in order to bring business practice at the airport to international standard. This is an area that would class practice is yet to be embraced.

USE OF PROFESSIONALS IN MANAGING REVENUE SOURCES

The thrust of Government policy is towards private sector participation in what had hitherto been exclusive and direct government business. This forms the Authority's disposition to involve professionals in those aspects of aviation business which we had hitherto tried to run directly. The offer is open and should be embraced by all aviation professional good enough to offer what is beneficial to the system.

It is our belief that when this method is perfected, the Authority would carry out more efficiently her basic functions of Airport development, maintenance and operation. We appreciate the Authority's limitations in acquiring knowledge in all the business areas that can be found at the airport. It is therefore a wise decision by Government to divest herself of her interest in companies such as NAHCO. Alternatively, it is rather more profitable to charge concession fees on all business opportunities granted to legitimate operators by the authority for providing the market to such operators whether resident at the Airport or not.

We submit therefore that direct business should be directly carried on by the Authorities only.

- ✓ If the business is not big enough to guarantee its own earning capacity and yet it is an important service for the passengers, freight forwarders and visitors.
- ✓ If the airport authority has not been able to find a concessionaire for the commercial activity.
- ✓ If the activity does not require special skills
- ✓ If the activity is simple to run and fraud proof yet likely to yield returns conveniently.

DUTIES OF AIRPORT OPERATOR TO STAKEHOLDERS

Having cut my teeth in private business practice, I shall be the first person to concede that every right has its own corresponding duties.

The Authority should therefore assert its right to survive within the context of appropriate pricing of its facilities and by providing business persons at the airport with efficient, good traffic demand and potential

growth in traffic. We must support airlines with reasonable operating cost so that they operate profitably within our airports.

To the public, we should provide environment pleasant for business. To you cargo shippers we should sell a wide range of all cargo and belly airlines services, good truck access and parking with good road links to the major highway system. It is our duty to support charter traffic with facilities such as warehousing and cold room system. This should however be done through private sector participation and appreciation of the Authority's self need particularly with respect to revenue. God forbid that the airport should suffer from inadequate funds to carry out every day business. The effect of this is better imagined than experienced.

REVIEW OF THE CARGO COURIER COMPANIES DOCUMENTATION/ADMINISTRATION FESS

The improper designation of the fees by previous Administration led to the misplace and unnecessary agitation by both the Government regulatory departments and our customers. While it is not the duty of the Authority to register or collect any fees towards that end, it is legal and legitimate by domestic and international aviation standards for the authority to properly document and periodically review the documentation of all manners of customers carrying on business at the Airport. This does not in anyway come in conflict with the regulatory bodies that generally licence professional for operations both at the sea ports and the Airports. The documentation/administration charge fess by whatever name it is applied is not limited to this group of customers. It is a domestic charge for the duties that if not carried out, the proper administration of various client groups would not be feasible and this would affect standards at our airports.

In view of the above, the Federal Airport Authority has represented a proposal to Government for approval of a centralized documentation point to be located at the Headquarters. A first year administration/documentation fee of #250,000 is therefore recommended, renewable, yearly with #100,000. This would fulfill the authority's expectation in respect of the concept of business by third parties at the airport while resolving the contentious requirement of registration at every airport operated by courier/Cargo operators.

Professionalism is what the regulatory agencies target while business administration is the thrust of FAAN. Where the customer does not satisfy FAAN as a business entity at the airport in supporting aviation practice and smooth running of the Airport, the Authority may to continue the grant of further access to the customer.

~~N~~5 AIR CARGO CHARGE

This charge is direct at cargo consolidation/aircraft chattering. It is not all charge levied by Airport Operate that must be international charge. ICAO recognizes that for Airport to meet its huge responsibility of maintenance of facilities and provision for retirement of debts as well as reserves for future capital improvements, its management may require levy of sundry charges. This may or may not exist at other airport provided that unlike internationally known category A charges, they are to be paid at the destination point. Such charges are determined by national economy's indices of the individual countries.

This charge has not been established to have any adverse on importation as the largest categories of these goods are finished goods. The Authority appreciates that the opposite may be true if levied against out bound cargo (export). The Authority appreciates export drive of Government and therefore has no intention now or in future to levy such charge on chattering of aircraft/cargo consolidators exporting goods.

~~N~~7 PORT CHARGE

N7.00 per kg is directed at the consignees for services intended and indeed provided to this category of airport user. At passengers terminal worldwide, the commensurate charge is Passenger Service Charge (PSC). So as to have travelers using facilities at the passenger terminal so do we have consignees using general such facilities as security, access to airline patronage and other common facilities at the cargo terminal.

The fact that room exists for improvement in the services deliverable to these customer does not justify the questioning of its legitimacy. The charge is the exclusive preserve of Airport Management and no Handling Company domiciled with Airport Management is an international charge.

SUMMARY

We do not pretend that we are there yet. We shall therefore continue to discuss with persons and group of like minds in evolving internationally recognized and domestically allowed aviation charge and practice at our airports.

Thank you.

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