

Analysis of Benefits and Challenges of Deregulation and Liberalization on Air Traffic Flow in Nigeria

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Abstract: *The most challenging event in the history of Aviation industry in Nigeria was the deregulation of the Aviation sector, the relaxed mood of the Nigerian Civil Aviation is responsible for higher traffic generated over the years. However, the growing trend in air traffic has been a source of concern in the global scene and the Nigerian Civil Aviation Sector is no exception. The major objective of this research is to examine the effect of deregulation and liberalization on the frequency and volume of passengers, cargoes and mails by air making use of secondary data from 1985 to 2012. It considers the issues of deregulation and liberalization as a policy that has precipitated investment and improves patronage in the sector. The study shows that there is considerable increase in the frequency of passengers, cargoes and mails in the Nigerian Civil Aviation sector during the post deregulation era as against the pre-deregulation period. The Analysis of Variance shows that both the volume of passengers and cargoes are experiencing an upward trend in traffic as a result of deregulation and liberalization of the Nigerian aviation industry while the volume of mails in the Nigerian aviation industry is experiencing a downward trend. Finally, the study recommended full implementation of open skies agreement with other countries as well as total compliance with International Civil Aviation Organisation (ICAO) standards for effective air transport operation and consistent air traffic flow in Nigeria.*

Keywords: *Air Traffic, Deregulation, Liberalization, Trend.*

I. Introduction

Filani (1986), Adeniji (1994), Fadugba (2005), Hassan (2007), are several works on air transport and they all agree to the fact that air transport has contributed to the overall socio-economic development by providing means of conveyance of persons, goods services etc. Though it is the most recent form of transport, it is also the most growing mode of transportation. Odugbemi (2000) in Wells (1984) on rapid development of air transport stated that “in a short span of 80 years, we have gone from making a few test flights to orbiting celestial bodies, from sliding along sand dunes to spanning oceans, from fear of isolated daring to everyday dependence on aviation, speeds have increased a thousand fold as have altitude and range capability. No longer is the sky the limit”. In a related development, Filani (1986) observed that “speed is one great asset possessed by the aircraft and it distinguishes it from other forms of transportation”. This makes possible the wider coverage of the area of a country or region during an operation within a short period of time.

In Nigeria, the increased demand for air travels and the Federal Government’s policy to build a standard airport in each state capital, in the 1970’s, lead to Nigeria Airways taking up the challenge to expand its flight operations on scheduled basis to the state capitals e.g Benin, Calabar, Akure, Ilorin, Sokoto, Maiduguri etc., were connected. At its peak in 1983, Nigeria Airways carried over two million passengers on the domestic routes (Amusan, 2005). However, quite a number of changes have occurred in the Nigerian Aviation Industry. In the early days of air transport in Nigeria, activities of Nigeria Airways Limited was regulated i.e., no private investor was allowed to operate air transport service, the government both owns the airports and the aircraft that operate at these airports. This continued until late 1980’s when the industry was deregulated. Deregulation is the reduction or abolition of the role, involvement and intervention of the government in a given industry which is usually accomplished by opening the door to greater competition. But according to Roller and Sickles (1994) in Bamigboye (2000), deregulation in Airline industry was seen as the airline liberalization involving increased competition, relaxation of price controls and opening market access for potential investors to come in, before now civil aviation in Nigeria was synonymous with Nigeria Airways, the erstwhile national carriers but now, the country has about 178 registered independent airlines as a result of deregulation policy of the government (NCAA, 2005).

The policy which came into full effect in 1991 broke the monopoly of Nigeria airways and opened up the industry for mass participation. It also created the need for the establishment of several aviation parastatals, with each specializing in the provision of requisite aviation services in tune with the dictates of the International Civil Aviation Organization (ICAO).

At the continental level, Aviation Industry can be a vital catalyst for Africa's economic growth and social advancements. Fadugba (2005) opined that the new partnership for Africa's Development (NEPAD) initiative on Africa needs to break the logjam which constitutes an obstacles to the liberalization and growth of the African Aviation Industry, he further stressed that the initiative will ensure that the laudable goals of the Yamoussoukro Decision of 1999 are attained without delay. The Yamoussoukro decision was adopted by African ministers in charge of aviation in November 1999 in Yamoussoukro, Cote d'ivoire and it is the first legally binding arrangements for the liberalization of scheduled and non-scheduled air transport services within Africa. According to Chibundu (1997) "the airline industry in Africa is in its infancy, it needs to mature rapidly to make its proper contribution to the economic development of the continent and its people". The main umbrella organization in Africa Civil Aviation is the Africa Civil Aviation Commission (ACAC) which complements the activities of International Civil Aviation Organisation (ICAO) in Africa, there are other smaller organizations such as Yaoundé Treaty comprising Francophone States in West and Central Africa, the Banjul Accord Anglophone countries in West Africa (Ibrahim, 2004).

Nigeria belongs to most of these Organizations and has therefore been active in their activities and policy formulation. According to Cooke (2001), the search for the most workable organizational format and institutional relationships may well yield results that will show the way to a more expansive future for the African Air Transport Industry. But rate of passenger and freight movement has been on the increase in Africa. According to ICAO publication (2004) passenger traffic has increased from 31.8 billion in 1989 to 52.5 billion in 1999 which represent about 51% average annual growth on international routes and 9 billion in 1989 to 8.4 billion in 1999 which represent 0.7% average annual growth on domestic routes. But Lyle (2001) postulated that a trend towards liberalization of international air transport is now well established, not only bilaterally, but increasingly through sub-regional and regional agreement. This is likely to improve the present condition of air transport in Africa. Deregulation affects the pricing and it also relaxes the entry and exit regulation which allows more private operators to come into the industry and involving increased competition. At present, the number of registered airlines has tremendously increased.

II. Impact Of Deregulation And Liberalization On Air Traffic Flow In Nigeria

The implications of deregulation of the aviation sector on socio-economic development of Nigeria as well as on air traffic flow cannot be understood as it has not only guaranteed more choices and better reasonable, reliable and competition services, it has also increased efficiency and higher patronage in the aviation industry.

Some of its advantages include:

- (1) Participation of airline operators in wealth – creation activities by generating long-term gainful employment opportunities for a lot of people at the various airports. This helps to fight the acute problem of mass poverty.
- (2) It helps in taking on tasks previously performed by the government thereby relieving pressure on public expenditure and allowing government to concentrate their resources on key physical infrastructure at the airports.
- (3) The healthy competition among airline operators offers better and improved services to air travelers. As a result, many airlines are better managed and operated efficiently and this has also resulted in lowering fares.
- (4) Deregulation also comes with easy entry and exit into the aviation industry. The entry of new and smaller carriers brings entry on routes formerly abandoned by bigger carriers.
- (5) It also plays a significant role in capacity building, especially in human resource development for aviation staff and foreign investors are assured of promising returns in investing on air transport in Nigeria.

International air transportation has become very competitive and aviation businesses in Africa need to be privatized for the required growth and development in the industry to take place. The trend is towards deregulation, liberalization and open skies system and cooperation among airlines. It has been established that for maximum effect, privatization must be accompanied by deregulation and liberalization.

As defined by Ore (2001) deregulation means a change in regulation away from the present system. He went further to state that deregulating the transport industry further implies free exit and free entry for any operator with the addition of freedom to also set fares and pick which routes they will fly. It follows from this definition that Deregulated and/or Liberalized aviation market has the same distinguished features as follows:

- Free entry into the market of new airlines;
- Free exit from the market of weak airlines;
- Low competitive airfares;
- Better and improved services;
- Likelihood of a better management team;
- Airlines concentrate on routes where they have competitive advantage;
- Larger Global Carriers ply long and high density routes;

- Airlines form strategic alliances for improved performance;
- Equipment rationalization by Carriers;
- Product differentiation etc.,

Liberalization may be viewed in relation to the Aero-political environment or in relation to the infrastructural supplies and product distribution. In relation to Aero-political environment, Guedes Dias (2003), sees Liberalization as:

- (a) Freedom for airlines to:
- Provide services on desired routes on an economic and commercially viable scale;
 - Access new resources and join forces with other airlines; and
- (b) Freedom for passengers to choose among alternative services:
- Choose how and with whom best to do business; and
 - Secure adequate correlation between service level and price to be paid.

The benefits derivable from liberalization determine its relevance to an economy, Kotaite (2003), puts it that liberalization as a process and a methodology rather than an objective, must be judged by its consequences and its benefits, and not by its theoretical underpinnings. Finally, Cooke Jr. (2001), provided the difference between deregulation and liberalization. To him, liberalization generally removes the operating restrictions on an industry, but it is different from deregulation, which simply changes the rules. It is important to note also that a privatized and liberalized aviation market will still have some form of regulation because of safety requirements. This is especially true of the transport industries where safety and security are vital issues (Cooke, Jr. 2001).

According to Adeniyi and Olufemi (2004) challenges of deregulation and liberalization in the Nigerian Aviation sector include inadequate stand for Airlines at the airports especially the major ones because of unavailable space, moreover, there is problem of flight information and inefficient public address system in the airport as well as poor customer relations by the airlines since that enjoy high patronage. Flight delay and incessant flight cancellations have become normal norms in the Nigerian aviation industry over the years due to the effect of deregulation and liberalization of the Nigerian aviation industry. Missing luggage and personal items is also common in the airports due to high volume of traffic handled by airlines (Hassan, 2007). Deregulation also comes with its attendant problems as many airline operators are classified as weak in terms of manpower and financial stand. For instance, although about 179 private airlines are registered in various airports, less than 20% are in operation.

III. Conceptual Framework

Network air carriers moved to a hub- and-spoke network during the deregulations in United States of America at the end of the 1970's. A hub and spokes network works more like a blood circulation. In this model, there are many airlines and a hub airport. A hub airport is usually the hub of one airline and often a spoke of other airlines. In Nigeria, before deregulation, Nigeria Airways limited used to be the hub of other airlines while Murtala Muhammed International Airport Ikeja is the hub airport. Hub airlines have a strong marketing power on the routes to and from their hub because of the flight frequencies. This model is essential in increasing the number of online connections (connection without airline change) and reduced the number of interline connections (connections with an airline change) and they allowed increasing flight frequencies. Therefore, the increased number of hub airports in Nigeria e.g. Lagos, Abuja, Kano and Port-Harcourt has resulted in high air passenger travel over the years coupled with many airlines operating international scheduled flights.

IV. Materials And Methods

The data used in this study were derived from secondary data source which include records on volume of passengers, cargoes and mails for a period of 28 years (1985-2012) to cover the periods of pre-deregulation and post-deregulation from the aviation industry in Nigeria from Federal Airport Authority of Nigeria (FAAN). These were complemented with information from research reports and articles. The data gathered were presented using line graphs and cross tabulation of variables using ANOVA analysis.

V. Discussion Of Result/Findings

Emanating from the study are the fact that Nigeria has a large domestic population which provides a good base for increased air traffic that is yet to be fully developed and that the deregulation and Liberalization has improved the aviation sector in Nigeria by offering different choices for passengers and eliminating monopoly.

Table 1. Analysis Of Variance Analysis

	Paired Differences					t	df	Sig(2-tailed)
	Mean	Std Deviation	Std Error Mean	Lower	Upper			
Pair 1 Number of Passenger(Pre-Deregulation and Post-Deregulation)	212874.33	163893.905	94624.190	-194261	620009.36	2.250	2	.153
Pair 2 Volume of Cargo(Pre-Deregulation and Post-Deregulation)	2568501	2040775.110	1178242	-2501065	7638067	2.180	2	.161
Pair 3 Volume of Mails(Pre-Deregulation and Post-Deregulation)	-318470	69204.882	39955.457	-490385	-146556	-7.971	2	.015

Data for this study were taken from pre-deregulation years and post-deregulation years. From table 1, it shows that the calculated t (2.250) for number of passengers is greater than the critical value (0.153) at $P < 0.05$ and thus the model is significant; so also the calculated t (2.218) for number of cargoes which is greater than the critical value (0.161) at $P < 0.05$ but the calculated t (-7.971) for number of mails at critical value (0.015) shows non-significant model at $P < 0.05$. This implies that while both the volume of passengers and cargoes are experiencing an upward trend in traffic as a result of deregulation and liberalization of the Nigerian aviation industry, the volume of mails in the Nigerian aviation industry is experiencing a downward trend.

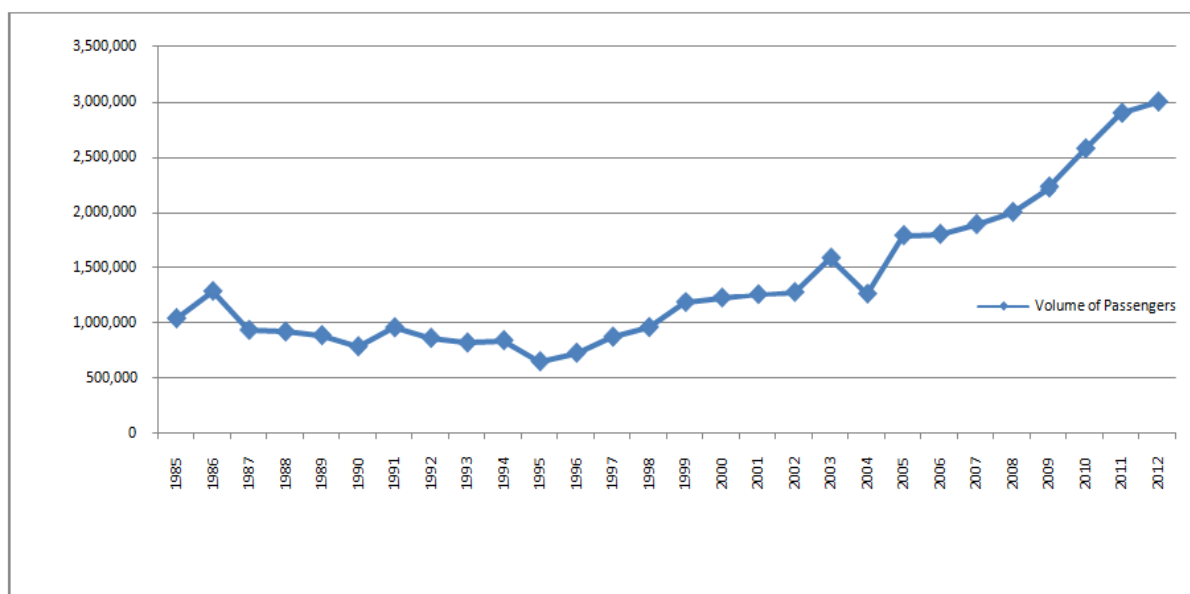


Fig 1: Volume of Passengers (1985-2012)

There was an increase in the number of passengers passing through the Nigeria Airspace in 1986 against 1985, but there was a drop in the volume of passengers from 1987 to 1990 as shown in figure 1, so also, there are slight increases in the passenger traffic from 1991 up till 2008. This shows that there are fluctuations in passenger traffic before the full deregulation of aviation industry in 2009, there was consistent increase in the passenger traffic after full deregulation up till 2012.

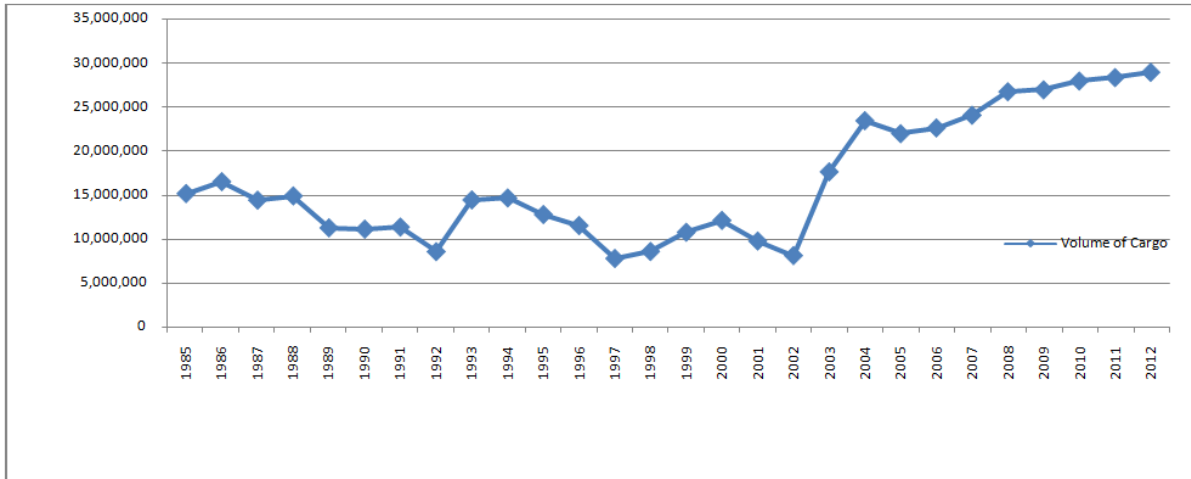


Fig 2: Volume of Cargoes (1985-2012)

Though there are consistent fluctuations of cargoes passing through the Nigerian airspace from 1985 till 2005, as shown in figure 2, with major downward trend experienced in 2002 but since 2006 there has been upward and consistent increase in the volume of cargoes passing through the Nigerian airspace up till 2012. This shows that the full deregulation of the Nigerian Aviation industry also has direct impact of the volume of cargoes.

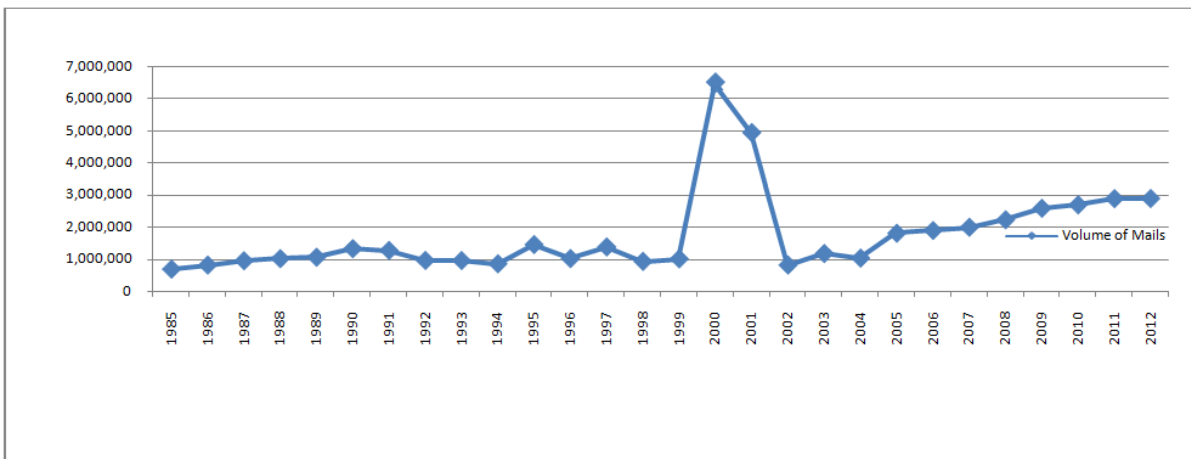


Fig 3: Volume of Mails (1985-2012)

The volume of mails in the Nigerian Aviation industry shows minimal variations from 1985 up till 1988, with a very considerable increase in the volume of mails experienced in 1989, while a considerable drop in the volume of mails was also noticed in 2002. Since 2004 up till 2012, there has been consistent increase in the volume of mails in the Nigerian Aviation industry.

VI. Conclusion

The task of moving the aviation industry forward in Nigeria requires a lot of dedication, determination and focus which are achievable because the current demand of air transportation calls for greater attention of government and stakeholders. This study has revealed the growing trends in air traffic in Nigeria precipitated by deregulation and liberalization, however, full implementation of open skies agreement with other countries as well as total compliance with International Civil Aviation Organisation (ICAO) standards for effective air transport operation will also go a long way in improving the air traffic in the Nigerian Aviation Industry.

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